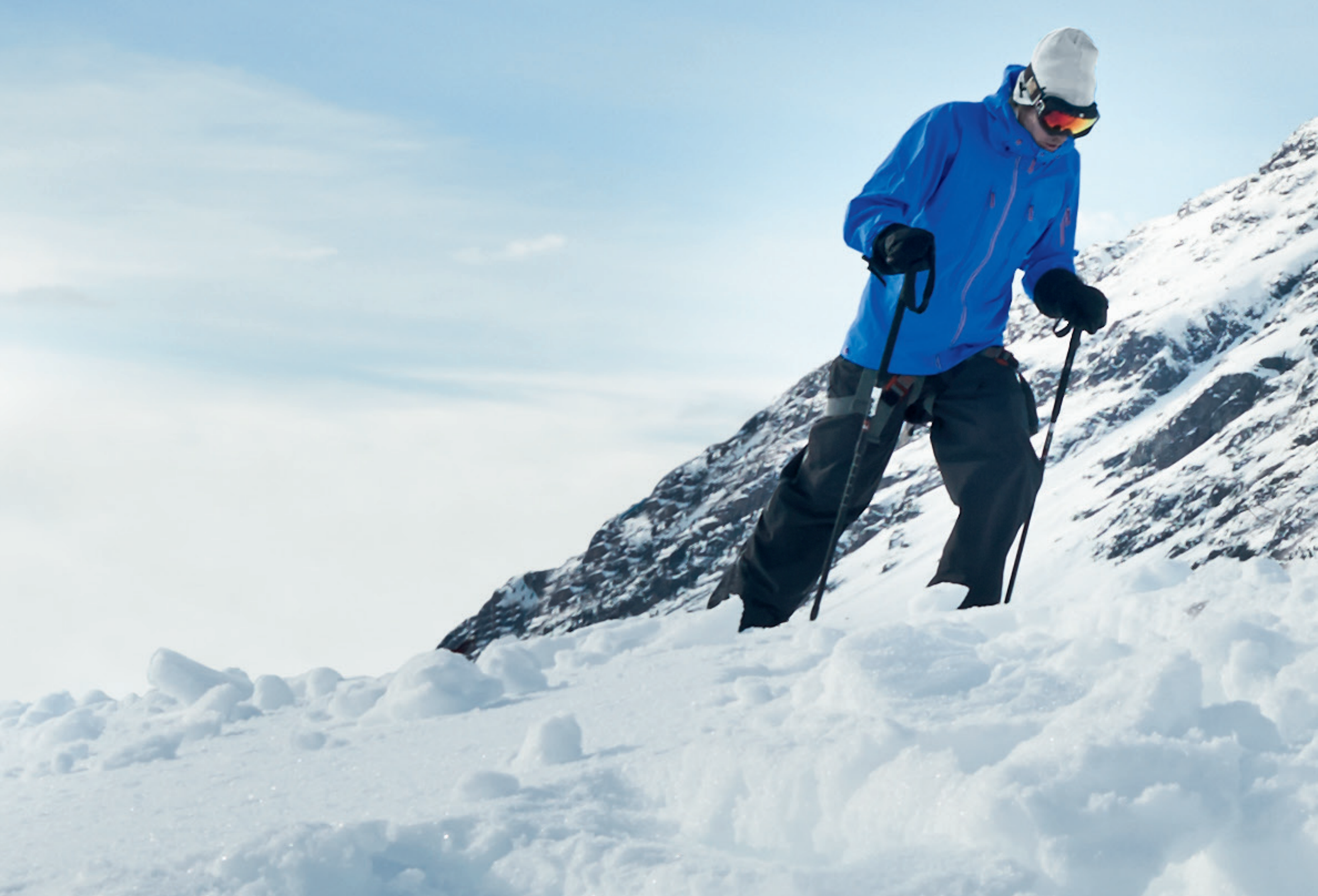
Zurich Takaful Malaysia Berhad

ZURICH TAKAFUL

# Statutory Financial Statements For The Financial Year Ended 31 December 2017



Company No.

| 731996 | H |
|---|---|

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2017**

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**DIRECTORS' REPORT**

The Directors are pleased to submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of Family Takaful including Investment-linked business and all classes of General Takaful business. There have been no significant changes in the nature of these activities during the financial year, other than as disclosed in Note 14 to the financial statements.

FINANCIAL RESULTS

| | RM'000 |
|---|---|
| Net loss for the financial year : | |
| - Continuing operations | (19,459) |
| - Discontinued operations | (4,398) |
| | (23,857) |

DIVIDENDS

No dividends have been paid, declared or proposed by the Company since the end of the previous financial year.

The Directors do not recommend the payment of any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

PROVISION FOR OUTSTANDING CLAIMS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims.

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written-off and adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amounts written-off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ensure that any current assets other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of Takaful underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature, other than as disclosed in Note 14 to the financial statements.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

ISSUE OF SHARES

On 31 March 2017, the Company issued 30,000,000 new ordinary shares for cash. The new ordinary shares issued during the financial year rank pari passu in all respect with the existing ordinary shares of the Company.

CORPORATE GOVERNANCE

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles under the Islamic Financial Services Act, 2013 ("IFSA"), Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance (BNM/RH/PD 029-9) in particular issued by Bank Negara Malaysia ("BNM"), and the principles of Shariah.

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC")

The composition of the Audit Committee is as follows:

| | | No. of Attendance |
|---|---|---|
| Onn Kien Hoe (Chairman) | Independent Director | 6/6 |
| Tan Sri Ahmad bin Mohd Don | Independent Director | 6/6 |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim | Independent Director | 6/6 |
| Choy Khai Choon | Independent Director | 6/6 |

The primary duties and responsibilities of the Committee in relation to the internal audit function and internal control, external auditors, financial reporting, compliance, governance and risk management and audit investigation are as follows:

(1) Internal Audit Function

1.1 Governance

1.1.1 The Committee should establish an internal audit function and identify a Head of Internal Audit who reports directly to the Committee. The Head of Internal Audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control and governance processes within the Company.

1.1.2 The Committee should:

(a) ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.

(b) ensure the effective organisation of the internal audit function, with due regard to the professionalism, capacity and competence of the internal audit personnel.

(c) review the adequacy of the scope, functions and resources of the internal audit functions and procedures and that it has the necessary authority to carry out its work, in particular:

(i) any restrictions placed on access by the internal auditors to any of the insurer's records, assets, personnel or processes which are relevant to the conduct of audits;

(ii) appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits, having regard to the nature, size and complexity of the Company's operations;

(iii) compliance with internal auditing standards; and

(iv) coordination between internal and external auditors.

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

(1) Internal Audit Function (continued)

1.1 Governance (continued)

(d) review the internal audit programme, audit plan, audit charter, processes, results of the audit and whether or not appropriate action is taken on the recommendations of the internal audit functions.

(e) ensure that reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, internal audit reports should not be subject to the clearance of the Chief Executive Officer or any Executive Director.

(f) ensure that they are adequately informed of and understand the risks and implications of internal audit findings and recommendations. The Committee should pay particular attention to internal audit assessments of :

i) compliance with the Company's policies, relevant laws and regulatory requirements;

ii) effectiveness of internal controls in critical areas of operations such as accounting, underwriting, claims, investment, derivatives and information technology management; and

iii) management's responsiveness to, and corrective actions taken in respect of, internal audit findings and recommendations.

(g) ensure that Senior Management is taking / will be taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.

(h) note any significant disagreements between the internal auditor and management irrespective of whether they have been resolved in order to identify any impact that this may have on the audit process or findings.

1.2 Resources and Staffing

The Committee should ensure on an ongoing basis that the Internal Audit Department has adequate and competent resources, given the size and complexity of the Company's operations.

The Committee should:

(a) approve any appointment, remuneration and removal/termination of senior staff members of the internal audit function;

(b) review any appraisal or assessment of the performance of members of the internal audit functions;

(c) take cognisance of resignations of the senior internal audit staff members and provide the resigning staff with an opportunity to submit reasons for their resignations; and

(d) ensure that internal audit staff receives necessary training to perform audit work. There should be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

(2) External Auditors

2.1 Appointment of External Auditors

The Committee should:

(a) be responsible for the appointment of the external auditor, having particular regard to the external auditor's objectivity, performance and independence.

(b) review and assess various relationships between the external auditor and the Company or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the insurer. This may include affiliations resulting from the Company's employment of former employees of the external auditor in senior positions within the Company.

(c) review and assess fees structure paid to the external auditor, considering:

i) audit structure of Zurich Group;

ii) the economic importance of the Company (in terms of total fees paid) to the external auditor;

iii) fees paid for non-audit services as a proportion of total fees;

iv) whether an effective, comprehensive and complete audit could be reasonably conducted for the audit fee paid.

(d) review and independently verify through reasonable means all relevant information necessary to support its assessment of the auditor's compliance with the criteria specified as follows:

(1) The qualification criteria of an auditor are as follows:

i. he is registered as an auditor of a public interest entity with the Audit Oversight Board;

ii. he must not have been convicted of any offence under the Financial Services Act, the IFSA or the Companies Act, 2016, or of any offence under any written law involving fraud or dishonesty;

iii. he shall have the necessary skills, knowledge and appropriate experience to perform the audit of the financial institution with professional competence and due care in accordance with the approved auditing standards and applicable regulatory and legal requirements;

iv. he shall not have relationships with, or interests in, including an interest in shares of, the financial institution or any of its related entities that are likely to impair his objectivity or independence, and which cannot be reduced to an acceptable level through the application of appropriate safeguards;

v. he shall not have any record of disciplinary actions taken against him for unprofessional conduct by the Malaysian Institute of Accountants ("MIA") where the decision for such disciplinary action has not been reversed by the Disciplinary Appeal Board of the MIA; and

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

(2) External Auditors (continued)

2.1 Appointment of External Auditors (continued)

(a) review and independently verify through reasonable means all relevant information necessary to support its assessment of the auditor's compliance with the criteria specified as follows: (continued)

(1) The qualification criteria of an auditor are as follows:

vi. he must not have served as an engagement partner for a continuous period of more than five years with the same financial institution. An auditor who has been rotated off the audit of a financial institution may resume the role as engagement partner only after a lapse of five years from the last audit engagement with that financial institution.

(2) The Board shall ensure that members of the audit engagement team involved in making key decisions on significant matters with respect to the audit of the financial statements meet the qualification criteria in items (1) (i) to (vi) as mentioned above.

(3) Where non-audit services are provided to the financial institution by an auditor, the board shall ensure that the provision of such service does not impair, either in fact or appearance, the auditor's objectivity, judgment or independence.

2.2 Provision of non-audit services by the external auditor

2.2.1 any provision of non-audit services by the Company's external auditor should be approved by the Committee before the commencement of the service, or whenever there is a significant change in the level of services provided.

2.2.2 the Committee should have regard to restrictions on outsourcing to external auditors set out in BNM/RH/GL/003-4: Guidelines on Outsourcing for Insurers.

2.2.3 The Committee's decisions with respect to the provision of non-audit services should be documented in a statement which outlines whether or not it believes the level of provision of non-audit services by the external auditor is compatible with maintaining auditor independence.

2.3 Audit plan, findings and recommendations

2.3.1 The Committee should:

(a) discuss with the external auditors the audit plan prior to the commencement of the annual audit, nature and scope of audit for the Company.

(b) review with the external auditors their evaluation of the system of internal controls of the Company and their audit report.

(c) review with the external auditors the quarterly results and year-end financial statements prior to approval by the Board of Directors on:

i) major changes on accounting policy and practices;

ii) significant and unusual events arising from the audit;

iii) the going concern assumption; and

iv) compliance with accounting standards and other legal requirements.

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

(3) Other Responsibilities

(i) The Committee should also review on the areas concerning the internal control, governance, risk management and compliance as follows:

- the Chairman's statement, interim financial reports and preliminary announcements, where applicable;
- corporate governance disclosures made in the Directors' Report pursuant to the requirement in Corporate Governance Policy Document and to ensure that the corporate governance disclosures are accurate, clear and presented in a manner that is easily understood by its shareholders, customers and other relevant stakeholders;
- the plans, activities, organisation and quality of the risk management and compliance functions of the Company and ensure compliance with Zurich Risk Policy and the Group's Ethical Standards Policy;
- all representation letters signed by Management, and be satisfied that the information provided is complete and appropriate;
- any related-party transactions and conflicts of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity; and
- review third-party opinion on the design and effectiveness of the Company's internal control framework.

(ii) The Committee should also ensure that:

- the Company complies with Section 75 of the Islamic Financial Services Act, 2013 which requires an insurer to publish its accounts within fourteen calendar days of the laying of its accounts at its Annual General Meeting pursuant to Paragraph 15.1 of Part D – Publication Requirements contained in the Financial Reporting guideline issued by Bank Negara Malaysia (BNM/RH/GL 015-3);
- the Company's accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with regular reviews carried out on the adequacy of provisions made; and
- supervisory issues raised by the Bank Negara Malaysia are resolved in a timely manner.

(iii) The Committee shall also be responsible for any other functions as may be determined by the Board and reflected in its terms of reference.

Nomination and Remuneration Committee ("NRC")

The composition of the NRC is as follows:

The composition of the NRC is as follows:

| | | No. of Attendance |
|---|---|---|
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman) | Independent Director | 5/5 |
| Assoc. Prof. Dr. Md Khalil bin Ruslan | Independent Director | 5/5 |
| Onn Kien Hoe | Independent Director | 5/5 |
| Steven Choy Khai Choon | Independent Director | 5/5 |
| Hasnah Binti Omar | Independent Director | 5/5 |

The primary duties and responsibilities of the Committee are to assist and support the Board in carrying out its functions on Nomination and Remuneration matters as follows:

(A) Nomination matters concerning the Board, Senior Management (including Chief Executive Officer and Expatriates) and Company Secretary on areas pertaining to appointments and removals, composition, fit and proper assessments, performance evaluation and development

The Committee shall be responsible for:

i) establishing minimum requirements with emphasis on criteria and skill sets required of its members, both individually and collectively as well as the scope of work for the Board and the Chief Executive Officer to perform their responsibilities effectively to be reviewed on a continuing basis.

ii) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for appointment/re-appointment, before an application for approval is submitted to Bank Negara Malaysia based on:

- whether the candidate fulfills the fit and proper requirements based on Section 68(1) of the Islamic Financial Services Act, 2013 ("IFSA 2013") and must not be disqualified under Section 68(1) of the IFSA 2013.
- their level of commitment so as not to impair their ability to discharge their duties effectively.
- the candidate must not be an active politician.
- where a firm has been appointed as the external auditor of a financial institution, any of its officers directly involved in the engagement and any partner of the firm must not serve or be appointed as a Director of the financial institution until at least two years after he ceases to be an officer or partner of that firm or the firm last served as an auditor of the financial institution.

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iii) overseeing the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required, through annual reviews.

CORPORATE GOVERNANCE (CONTINUED)

Nomination and Remuneration Committee ("NRC") (continued)

(A) Nomination matters concerning the Board, Senior Management (including Chief Executive Officer and Expatriates) and Company Secretary on areas pertaining to appointments and removals, composition, fit and proper assessments, performance evaluation and development (continued)

iv) to ensure that internal declarations are carried out by the Board of Directors and the Senior Management including the Chief Executive Officer to review their status and fulfillment of the minimum criteria of a "Fit and Proper Person" in compliance with the IFSA 2013 and Bank Negara Malaysia's Guidelines on "Fit and Proper Criteria" and the "Policy Document on Corporate Governance" on an annual basis.

v) overseeing the establishment and implementation of the internal policies to be approved by the Board on fit and proper procedures and assessment processes relating to Key Responsible Persons (Directors, members of Shariah Committee (if applicable), the Chief Executive Officer and Senior Officers) and the Company Secretary.

vi) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer; and where required, to approve deviations from approved Board Assessment and Evaluation Questionnaire.

vii) recommending to the Board on removal of a Director/Chief Executive Officer if he/she is ineffective, errant or negligent in discharging his/her responsibilities.

viii) ensuring that all Directors undergo appropriate Orientation and Induction Programmes and/or In-House Directors' Training and receive continuous training.

ix) overseeing the appointment, management succession planning and performance evaluation of key senior officers, and recommending to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

x) to recommend and regularly review succession plans for the Board to promote Board renewal and address any vacancies.

xi) when assessing an individual to be recommended to be appointed as an independent director, that the candidate must be independent in character and judgement, and free from associations or circumstances that may impair the exercise of his independent judgement. The Committee is to note that the individual must not be considered to be an independent director if he/she or any person linked to him/her:

(a) has been an executive in the last two years;

(b) is a substantial shareholder of the financial institution or any of its affiliates; or

(c) has had a significant business or other contractual relationship* with the Company or any of its affiliates within the last two years.

** Significant business or other contractual relationship shall be based on the definition provided under the Malaysian Companies Act.*

xii) to recommend and review an individual who served as an independent director for a cumulative term of 9 years for which an individual can serve as an independent director.

xiii) undertaking and performing such other matters/activities according to the application requirements in the guidelines from Bank Negara Malaysia and/or as the Board of Directors think fit.

CORPORATE GOVERNANCE (CONTINUED)

<u>Nomination and Remuneration Committee ("NRC")</u>(continued)

(B) Remuneration Matters

(i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) of the Company. The remuneration policy and practices shall:

(a) be documented and approved by the Board of Directors of the Company and be subject to periodic Board review, including when material changes are made to the remuneration policy;

(b) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and Key Senior Officers (including the Expatriates, if any);

(c) be sufficient to attract and retain Directors, Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) of calibre needed to manage the Company successfully; and

(d) be balanced against the need to ensure that the funds of the Company are not used to subsidise excessive remuneration packages.

(ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) of the Company. The remuneration packages shall:

(a) be based on an objective consideration and approved by the Board of Directors;

(b) take due consideration of the assessment of the Regional / Group Remuneration Team on the effectiveness, level of contribution such as effort and time spent and responsibilities of the Directors, the Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) in discharging their duties for the benefits of the Company and of the Group;

(c) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and

(d) be competitive and does not induce excessive risk-taking and is consistent with the Company's culture, objective, risk appetite and long term strategy.

(iii) To ensure that the remuneration for individuals within the Company be aligned with prudent risk-taking and appropriately adjusted for risks. The remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that:

(a) the remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement;

(b) the size of the bonus pool is linked to the overall performance of the Company;

(c) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;

(d) bonuses are not guaranteed, except in the context of sign-on bonuses; and

(e) for members of senior management and other material risk takers:

(1) a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
(2) the variable portion of remuneration increases along with the individual's level of accountability.

(iv) To undertake and perform such other matters/activities according to the application requirements in the guidelines from Bank Negara Malaysia and/or as the Board of Directors think fit.

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee ("RMC")

The composition of the RMC is as follows:

| | | No. of Attendance |
|---|---|---|
| Hasnah Binti Omar (Chairperson) | Independent Director | 6/6 |
| Onn Kien Hoe | Independent Director | 6/6 |
| Tan Sri Ahmad bin Mohd Don | Independent Director | 6/6 |
| Choy Khai Choon | Independent Director | 6/6 |

The Committee is responsible for the following:

Risk Governance & Oversight

(a) To review the overall risk management philosophy and ensure long term financial soundness including to determine the Company's business, in line with the overall corporate and risk management strategy, policies and risk tolerance set to be approved by the Board as well as ensuring compliance and adherence with the Risk Governance Guideline set by Bank Negara Malaysia.

(b) To review and assess the adequacy of risk management policies, frameworks, strategies and resources that govern the process for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.

(c) To provide constructive challenge to management on the credibility and robustness of the risk management framework to ensure that there are no material gaps or weaknesses.

(d) To review the adequacy of the risk management practices for material risks such as market, credit, liquidity, insurance, operational and compliance risks on a regular basis.

(e) To review and be guided by Zurich Risk Policy/frameworks, strategies and limits relating to the Company's risk management, investment management, asset-liability management and liability management activities for the Board's approval.

(f) To review and recommend risk tolerance levels including Risk Appetite Statement for the Board's approval which must address the major types of risk that the Company needs to manage and the tolerance levels around specific risks that are acceptable to the Company in executing its business strategy and to also consider all relevant risks including non-quantifiable risks.

(g) To review and recommend the Company's risk appetite regularly to ensure that it continues to be relevant and reflects any changes in the Company's capacity to take on risk, its inherent risk profile, as well as prevailing market conditions.

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee ("RMC") (continued)

(h) To ensure that appropriate mechanisms are in place for communicating risks across the organization and for reporting risk developments to the Senior Management, the Committee and the Board.

(i) To ensure that the risk management function has adequate infrastructure, resources and systems; and that it is staffed by an appropriate number of experienced and qualified employees who are sufficiently independent to perform the duties objectively.

(j) To oversee the establishment and implementation of approved frameworks, policies, strategies and limits; and where required, to approve deviations from approved frameworks and policies.

(k) To establish an Independent Senior Risk Executive role (Chief Risk Officer or its equivalent) with distinct responsibility for the risk management function and the risk management framework across the entire organization.

(l) To review the appointment, annual performance evaluation as well as the dismissal or resignation of the Chief Risk Officer / Head of Risk Management, before submission to the Board for consideration and approval.

(m) To review the remuneration and benefits to be accorded to the Chief Risk Officer / Head of Risk Management, before submission to the Remuneration Committee for endorsement and the Board for approval.

(n) To initiate any review and action as appropriate for prudent risk management.

Risk Management

(a) To review the management's periodic reports to monitor and control the Company's risk exposure, risk portfolio composition and risk management activities.

(b) To review and have an oversight over the stress test process/exercise which should be conducted twice yearly and ensure that the expectations set out in the stress testing guideline of Bank Negara Malaysia are met.

Shariah Committee ("SC")

The composition of the SC is as follows:

| | | No. of Attendance |
|---|---|---|
| Assoc. Prof. Dr. Md Khalil bin Ruslan | Chairman | 9/9 |
| Dr. Luqman bin Abdullah | Member | 9/9 |
| Prof. Dr. Joni Tamkin bin Borhan | Member | 4/9 |
| Dr. Yusri bin Mohamad | Member | 8/9 |
| Prof. Dr. Mohamad bin Abdul Hamid | Member | 8/9 |
| Assoc. Prof. Dr. Zulkifli bin Hasan | Member | 7/9 |

**DIRECTORS' REPORT** (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Shariah Committee ("SC") (continued)

The duties and responsibilities of the SC are as follows:

1. Responsibility and accountability
   The SC is expected to understand that in the course of discharging the duties and responsibilities as a SC member, they are responsible and accountable for all Shariah decisions, opinions and views provided by them. The SC is also expected to perform an oversight role on Shariah matters related to the Company's business operations and activities.

2. Advise the Board and the Company
   The SC shall advise the board and provide input to the Company on any matters related to Shariah in order for the Company to comply with Shariah principles at all times.

3. Endorse Shariah policies and procedures
   The SC is expected to endorse Shariah policies and procedures prepared by the Company and to ensure the contents do not contain any elements which are not in line with Shariah.

4. Endorse and validate relevant documentations
   To ensure that the products of the Company comply with Shariah principles, the SC must approve:

   i. The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and

   ii. The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.

5. Assess work carried out by Shariah review and Shariah audit
   To assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah principles forms part of their duties in providing their assessment of Shariah compliance and accurate information in the annual report.

6. Assist related parties on Shariah matters
   The related parties of the Company such as its legal counsel, auditor or consultant may seek advice on Shariah matters from the SC and the SC is expected to provide the necessary assistance to the requesting party.

7. Advise on matters to be referred to the Shariah Advisory Council ("SAC")
   The SC may advise the Company to consult the SAC of Bank Negara Malaysia on Shariah matters that could not be resolved.

8. Provide written Shariah opinions
   The SC is required to record any opinion given. In particular, the SC shall prepare written Shariah opinions in the following circumstances:

   i. Where the Company make reference to the SAC for advice, or

   ii. Where the Company submit applications to BNM for new product approval.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

| | No. of Attendance |
|---|---|
| Tan Sri Ahmad bin Mohd Don (Chairman) | 8/8 |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim | 8/8 |
| Assoc. Prof. Dr. Md Khalil bin Ruslan | 7/8 |
| Onn Kien Hoe | 8/8 |
| Philip Wallace Smith | 8/8 |
| Choy Khai Choon | 8/8 |
| Hasnah binti Omar | 8/8 |

Tan Sri Ahmad bin Mohd Don retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

Mr Onn Kien Hoe retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During and at the end of the financial year, no Director has received or become entitled to receive any benefit (other than benefits disclosed as Directors' remuneration, fees paid to a company in which certain members have an interest and benefits provided to Directors as disclosed in the Note 22(a) to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which the Director has a substantial financial interest.

## DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholding required to be kept under Section 59 of the Companies Act, 2016, particulars of interests of Directors in office at the end of the financial year in shares in the ultimate holding company, Zurich Insurance Group Ltd, are as follows:

| | Number of ordinary shares of CHF0.10 each | | | |
|---|---|---|---|---|
| | At 1.1.2017 | Acquired | Disposed | At 31.12.2017 |
| Philip Wallace Smith<br>- Direct | 4,997 | 379 | (58) | 5,318 |

By virtue of the abovenamed Directors' interest in the shares of the Company's ultimate holding company, they are also deemed to have substantial interest in the shares of the Company and other subsidiary companies of the ultimate holding company, to the extent the ultimate holding company has an interest.

None of the other Directors in office at the end of the financial year held any interest in shares in, or debentures of, the Company or its related corporations during the financial year.

## AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 22(a) to the financial statements. There is no indemnity given to or insurance effected for any auditor of the Company.

| Company No. | |
|---|---|
| 731996 | H |

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**DIRECTORS' REPORT** (CONTINUED)

IMMEDIATE AND ULTIMATE HOLDING CORPORATIONS

The Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd. Both companies are incorporated in Switzerland.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment of auditors.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

Signed on behalf of the Board of Directors in accordance with their resolution dated 29 March 2018.

TAN SRI AHMAD BIN MOHD DON
DIRECTOR

PHILIP WALLACE SMITH
DIRECTOR

Kuala Lumpur
29 March 2018

Company No.

| 731996 | H |
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ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016**

We, Tan Sri Ahmad bin Mohd Don and Philip Wallace Smith, being two of the Directors of Zurich Takaful Malaysia Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 25 to 132 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and the financial performance and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 March 2018.

TAN SRI AHMAD BIN MOHD DON
DIRECTOR

PHILIP WALLACE SMITH
DIRECTOR

Kuala Lumpur
29 March 2018

**STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016**

I, Salim Majid Zain, the Officer primarily responsible for the financial management of Zurich Takaful Malaysia, Berhad, do solemnly and sincerely declare that the financial statements set out on pages 25 to 132 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

SALIM MAJID ZAIN

Subscribed and solemnly declared by the abovenamed Salim Majid Zain at Kuala Lumpur in Wilayah Persekutuan on 29 March 2018.

Before me,

PESURUHJAYA SUMPAH
No: W465
Nama: KAPT. (B) JASNI BIN YUSOFF
MALAYSIA

COMMISSIONER FOR OATHS
29 March 2018

Lot 1.08, Tingkat 1,
KWSP, Jln Raja Laut,
Kuala Lumpur.
019-6680745

ZURICH TAKAFUL

## Shariah Committee's Report

*In the name of Allah, the Beneficent, the Merciful*

In carrying out the roles and the responsibilities of the Zurich Takaful's Shariah Committee (SC) as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with our letter of appointment, we hereby submit our report for the financial year ended 31 December 2017.

The Management of the Company is accountable to ensure that its conduct of businesses, dealing and activities are in accordance with the Shariah rules, principles and resolution made by relevant Shariah authorities. Therefore, it is our responsibility to institute an independent opinion based on our review on the conduct and businesses entered by the Company to produce this report.

We had six (6) seating of scheduled meetings and three (3) special meetings during the financial year in which we reviewed among other things products, transactions, services, processes and documents of the Zurich Takaful (the Company).

In carrying out our roles and responsibilities, we had obtained all the relevant information and explanations which deemed necessary in order to provide us with fair evidences to give reasonable assurance that the Company has complied with the applicable Shariah rules and principles.

As part of the Shariah governance programme at the management level, the Head of Shariah who reports to us oversees the conduct and effectiveness of the internal Shariah compliance functions i.e. Shariah Research & Advisory, Shariah Review for both Family division as well as General division and Shariah Training which is further substantiated by Shariah Audit that resides in the Internal Audit Department and Shariah Risk which resides in the Risk Management Department.

The roles of these functions, generally, are facilitating new research & product development activities, refining existing products & procedures, providing Shariah training, managing Shariah non-compliance risks, conducting Shariah audit & review on departments and branches, coordinating with Shariah Committee and providing Shariah advisory services to internal and external parties.

The following are the major improvement that took place during the financial year which comes under our purview:

**Shariah Training & Awareness**

During the year, nine (9) Shariah trainings and briefing sessions were conducted to increase awareness among core functions in Zurich Malaysia on Takaful and Shariah.

**Shariah Non-Compliance Reporting**

Throughout the financial year there were 2 Shariah non-compliance events recorded. The management has taken the necessary action to report the said incidents to regulators and given their commitment to us to close the remaining incident in accordance to our advice and timeline given. The management had shown us their plan and we are convinced that the remaining event which due to change of the regulation shall be closed accordingly with the right plan and continuous effort.

**Shariah Committee's Report (continued)**

**Shariah Review**

The Shariah Review function which divided into 2 segments for Family and General divisions play a vital role in achieving the objective of ensuring Shariah compliance of the Company by regularly conducting review on the reviewable areas as instructed by us. The exercise as such is to validate the compliance of business activities with Shariah rules and principles in relation to such activities.

Shariah Review plan for the financial year were reviewed and approved by us for their implementation. During the year, the review was focusing on Post Implementation Review (PIR) and the scope of review was to ensure the integration process between Zurich Insurance and Zurich Takaful is in line with Shariah. The reports were deliberated in our meetings to confirm that the Company has complied with the rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission (for investment related matters) as well as our decisions. The reports were presented to us covering the following areas:

**Shariah Review**

1) Family Business
2) General Business

**Business Zakat and Purification**

In the financial year, the zakat calculation and the purification of income were conducted in accordance to policies approved by us.

**Shariah Governance**

We had also approved in our meetings, initiatives in strengthening the Shariah governance of the Company which has been bought over by Zurich Insurance Company Ltd (Zurich) in the 3rd quarter of 2016 by providing a crucial consultation and advisory to the company as well as to Zurich Group to ensure the Shariah and Takaful identity of the Company is preserve and upraise.

The Shariah Head has played an essential role to monitor the integration process which being carried out by the management and report to us for consultation and approval as and when needed. We are satisfied that during the first 100 days of integration the management and Zurich Insurance Group has observed the Shariah requirements accordingly which help maintaining the status of the Company as Shariah compliant Company.

We had also reviewed the financial statement of the Company and confirmed that the financial statement is in compliance with the Shariah rules and principles.

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Company during the financial year ended 31 December 2017 that were reviewed are in compliance with the Shariah rules and principles;
2. The allocation of profit and charging of losses relating to investment account conformed to the basis that has been approved by us in accordance with Shariah principles;
3. The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles;
4. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles have been considered for disposal to charitable causes.
5. The integration process with the aims to meet the Zurich Insurance Group standard of practice which has been carried out by the management is to comply with the Shariah requirement accordingly.

On that note, we, Assoc. Prof. Dr. Md Khalil Ruslan and Dr. Luqman Abdullah, being two of the members of Shariah Committee of Zurich Takaful Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Company for the year ended 31 December 2017 have been conducted in conformity with the Shariah rules and principles.

Allah knows best.

Company No.

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| 731996 | H |

**Shariah Committee's Report (continued)**

**On behalf of the Committee:**

| | | |
|---|---|---|
| Chairman of the Shariah Committee | : | ASSOC. PROF. DR. MD KHALIL RUSLAN |
| Shariah Committee | : | DR. LUQMAN ABDULLAH |

Kuala Lumpur
29 March 2018

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 731996-H)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of Zurich Takaful Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 25 to 132.

### Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants,*
*Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia*
*T: +60 (3) 2173 1188, F: +60 (3) 2173 1288,* www.pwc.com/my

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INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH TAKAFUL MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 731996-H)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH TAKAFUL MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 731996-H)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

(e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PricewaterhouseCoopers PLT

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|---|---|
| PRICEWATERHOUSECOOPERS PLT | SHIRLEY GOH |
| LLP0014401-LCA & AF 1146 | 01778/08/2018 J |
| Chartered Accountants | Chartered Accountant |

Kuala Lumpur
29 March 2018

Company No.

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ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2017**

| | | | | 2017 | | | | 2016 |
|---|---|---|---|---|---|---|---|---|
| | Note | Takaful Operator | Family Takaful Fund | Company | Takaful Operator | General Takaful Fund | Family Takaful Fund | Company |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | | | | | |
| Property and equipment | 4 | 4,039 | - | 4,039 | 8,796 | - | - | 8,796 |
| Intangible assets | 5 | 1,949 | - | 1,949 | 3,260 | - | - | 3,260 |
| Investments: | | | | | | | | |
| Loans and receivables | 6(a) | - | - | - | 161,856 | 119,357 | 27,948 | 309,161 |
| Available-for-sale | 6(b) | 166,336 | 67,909 | 234,245 | - | 57,859 | 67,674 | 125,533 |
| Fair value through profit or loss | 6(c) | 3,045 | 429,529 | 429,529 | 2,800 | - | 347,214 | 347,214 |
| Takaful receivables | 7 | - | 3,217 | 3,217 | - | 29,275 | 3,178 | 32,453 |
| Qardhul Hassan receivable | | - | - | - | 8,734 | - | - | - |
| Retakaful assets | 8 | - | 15,535 | 15,535 | - | 267,684 | 14,949 | 282,633 |
| Other receivables | 9 | 17,828 | 38 | 1,526 | 26,046 | 1,032 | 12,898 | 7,720 |
| Current tax assets | | - | 1,200 | 1,200 | 3,018 | - | - | 3,018 |
| Deferred tax assets | 13 | 664 | - | 664 | - | 2,178 | 687 | 3,026 |
| Cash and bank balances | | 16,019 | 78,269 | 94,288 | 2,706 | 1,455 | 51,518 | 55,679 |
| Assets of a disposal group classified as held-for-sale : | 14 | | | | | | | |
| - Takaful Operator | 14 | 84,233 | - | 79,398 | - | - | - | - |
| - General Takaful Fund | 14 | - | - | 435,795 | - | - | - | - |
| **TOTAL ASSETS** | | 294,113 | 595,697 | 1,301,385 | 217,216 | 478,840 | 526,066 | 1,178,493 |

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ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2017** (CONTINUED)

| | Note | 2017 Takaful Operator | 2017 Family Takaful Fund | 2017 Company | 2016 Takaful Operator | 2016 General Takaful Fund | 2016 Family Takaful Fund | 2016 Company |
|---|---|---|---|---|---|---|---|---|
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **LIABILITIES** | | | | | | | | |
| Takaful contract liabilities | 10 | - | 561,560 | 558,515 | - | 415,899 | 493,391 | 906,490 |
| Takaful payables | 11 | - | 3,494 | 3,494 | - | 36,528 | 2,614 | 39,142 |
| Qardhul Hassan payable | | - | 17,651 | - | - | - | 8,734 | - |
| Other payables | 12 | 32,078 | 27,987 | 43,173 | 44,371 | 23,465 | 28,533 | 64,113 |
| Expense liabilities | | 2,001 | - | 2,001 | 7,575 | - | - | 7,575 |
| Current tax liabilities | | 1,035 | 753 | 1,788 | - | 2,948 | 1,528 | 4,476 |
| Deferred tax liabilities | 13 | - | 1,903 | 1,903 | 1,935 | - | - | - |
| Liabilities of a disposal group classified as held-for-sale : | | | | | | | | |
| - Takaful Operator | 14 | 96,206 | - | 88,403 | - | - | - | - |
| - General Takaful Fund | 14 | - | - | 439,315 | - | - | - | - |
| **TOTAL LIABILITIES** | | 131,320 | 613,348 | 1,138,592 | 53,881 | 478,840 | 534,800 | 1,021,796 |
| **SHAREHOLDERS' EQUITY** | | | | | | | | |
| Share capital | 15 | 190,000 | - | 190,000 | 160,000 | - | - | 160,000 |
| Retained earnings/ (accumulated losses) | 16(a) | (27,160) | (17,651) | (27,160) | 3,335 | - | (8,734) | (3,303) |
| Available-for-sale reserve | 16(b) | (47) | - | (47) | - | - | - | - |
| | | 162,793 | (17,651) | 162,793 | 163,335 | - | (8,734) | 156,697 |
| **TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY** | | 294,113 | 595,697 | 1,301,385 | 217,216 | 478,840 | 526,066 | 1,178,493 |

| Company No. | |
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ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

| | | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|---|
| | Note | Takaful Operator | Family Takaful Fund | Company | Takaful Operator | Family Takaful Fund | Company |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Continuing Operations** | | | | | | | |
| Gross earned contributions | 17(a) | - | 277,687 | 277,687 | - | 276,422 | 276,422 |
| Contribution ceded to retakaful operators | 17(a) | - | (20,051) | (20,051) | - | (15,551) | (15,551) |
| **Net earned contributions** | 17(a) | - | 257,636 | 257,636 | - | 260,871 | 260,871 |
| Wakalah fee income | | 95,729 | - | - | 90,920 | - | - |
| Surplus sharing from Family Takaful Fund | | 13,500 | - | - | 13,000 | - | - |
| Investment income | 18 | 6,292 | 20,432 | 26,724 | 4,050 | 9,899 | 13,949 |
| Realised gains/(losses) | 19 | - | 5,037 | 5,037 | (224) | 1,512 | 1,288 |
| Fair value gains/(losses) | 20 | 245 | 20,401 | 20,646 | 70 | (14,351) | (14,281) |
| Other operating income – net | | 548 | 3,435 | 3,983 | 17 | 1,360 | 1,377 |
| **Other income** | | 116,314 | 49,305 | 56,390 | 107,833 | (1,580) | 2,333 |
| **Total revenue** | | 116,314 | 306,941 | 314,026 | 107,833 | 259,291 | 263,204 |
| Gross benefits and claims paid | 21(a) | - | (139,700) | (139,700) | - | (140,998) | (140,998) |
| Claims ceded to retakaful operators | 21(a) | - | 18,630 | 18,630 | - | 14,345 | 14,345 |
| Gross change to contract liabilities | 21(a) | - | (67,508) | (67,484) | - | (23,955) | (23,955) |
| Change in contract liabilities ceded to retakaful operators | 21(a) | - | 276 | 276 | - | 2,506 | 2,506 |
| **Net claims** | | - | (188,302) | (188,278) | - | (148,102) | (148,102) |

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ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017** (CONTINUED)

| | Note | 2017 Takaful Operator | 2017 Family Takaful Fund | 2017 Company | 2016 Takaful Operator | 2016 Family Takaful Fund | 2016 Company |
|---|---|---|---|---|---|---|---|
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Surplus sharing with Takaful Operator | | - | (13,500) | - | - | (13,000) | - |
| Wakalah fee expenses | | - | (95,729) | - | - | (90,920) | - |
| Fee and commission expenses | | (70,619) | - | (70,619) | (64,598) | - | (64,598) |
| Management expenses | 22(a) | (53,161) | - | (53,161) | (41,967) | - | (41,967) |
| Write-back of allowance for impairment loss | | - | - | - | - | - | - |
| Qardhul Hassan impairment | 22(b) | (17,651) | - | - | - | - | - |
| Other operating expenses | 22(c) | (101) | (15,721) | (15,822) | (2,844) | - | (2,844) |
| Expense liabilities | | 1,609 | - | 1,609 | (3,608) | - | (3,608) |
| **Other expenses** | | (139,923) | (124,950) | (137,993) | (113,017) | (103,920) | (113,017) |
| Zakat | | - | - | - | - | - | - |
| **Profit/(loss) before taxation** | | (23,609) | (6,311) | (12,245) | (5,184) | 7,269 | 2,085 |
| Tax (expense)/income attributable to participants | | - | (2,630) | (2,630) | - | 40 | 40 |
| **Profit/(loss) before taxation attributable to Takaful Operator** | | (23,609) | (8,941) | (14,875) | (5,184) | 7,309 | 2,125 |
| Taxation | 23 | (2,488) | (2,630) | (7,214) | (6,624) | 40 | (8,476) |
| Tax expense attributable to participants | | - | 2,630 | 2,630 | - | (40) | (40) |
| Tax expense attributable to Takaful Operator | | (2,488) | - | (4,584) | (6,624) | - | (8,516) |
| **Net (loss)/profit for the financial year from continuing operations** | | (26,097) | (8,941) | (19,459) | (11,808) | 7,309 | (6,391) |
| Net (loss)/profit for the financial year from discontinued operations : | | | | | | | |
| - Takaful Operator | 27 | (4,398) | - | (4,398) | (7,352) | | (7,352) |
| - General Takaful Fund | 27 | - | - | - | - | - | - |
| **Net (loss)/profit for the financial year** | | (30,495) | (8,941) | (23,857) | (19,160) | 7,309 | (13,724) |

Company No.

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**STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017** (CONTINUED)

| | Note | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Takaful Operator | Family Takaful Fund | Company | Takaful Operator | Family Takaful Fund | Company |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Net (loss)/ profit for the financial year** | | (30,495) | (8,941) | (23,857) | (19,160) | 7,309 | (13,724) |
| **Other comprehensive (loss)/income:** | | | | | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | | | | | |
| Fair value changes on available-for-sale investment that may be reclassified to profit or loss: | | | | | | | |
| - Gross fair value changes | 6(i) | (47) | 407 | 345 | 96 | 477 | 670 |
| - Transferred to profit or loss upon disposal of available-for-sale investments | 19 | - | - | - | 215 | - | 172 |
| - Deferred tax | 13 | - | (32) | (17) | (78) | (38) | (132) |
| - Net fair value changes | | (47) | 375 | 328 | 233 | 439 | 710 |
| Changes in Takaful contract liabilities arising from unrealised net fair value changes | | - | (375) | (375) | - | (439) | (477) |
| **Other comprehensive loss for the financial year, net of tax** | | (47) | - | (47) | 233 | - | 233 |
| **Total comprehensive (loss)/ income for the financial year** | | (30,542) | (8,941) | (23,904) | (18,927) | 7,309 | (13,491) |

Company No.

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ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

| | Share capital | Non-distributable Available-for-sale reserve | Distributable Retained earnings | Total |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **At 1 January 2017** | 160,000 | - | (3,303) | 156,697 |
| Issue of share capital during the financial year | 30,000 | - | - | 30,000 |
| Net loss for the financial year | - | - | (23,857) | (23,857) |
| Other comprehensive income for the financial year | - | (47) | | (47) |
| **At 31 December 2017** | 190,000 | (47) | (27,160) | 162,793 |
| **At 1 January 2016** | 100,000 | (233) | 10,421 | 110,188 |
| Issue of share capital during the financial year | 60,000 | - | - | 60,000 |
| Net loss for the financial year | - | - | (13,724) | (13,724) |
| Other comprehensive income for the financial year | - | 233 | - | 233 |
| **At 31 December 2016** | 160,000 | - | (3,303) | 156,697 |

The accompanying notes are an integral part of these financial statements.

Company No.

| 731996 | H |
|---|---|

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | RM'000 | RM'000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash used in operating activities | 24 | (39,157) | (24,365) |
| Distribution income received | | 13,107 | 2,071 |
| Profit income received | | 19,780 | 18,629 |
| Income tax paid | | (15,331) | (14,534) |
| **Net cash flows used in from operating activities** | | (21,601) | (18,199) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property and equipment | | - | (481) |
| Purchase of intangible assets | | (2,143) | (3,144) |
| **Net cash flows used in investing activities** | | (2,143) | (3,625) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of shares | | 30,000 | 60,000 |
| Proceeds from issuance of Subordinated Obligation | | 73,000 | - |
| **Net cash flows generated from financing activities** | | 103,000 | 60,000 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 79,256 | 38,176 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR** | | 55,679 | 17,503 |
| Transfer to assets of a disposal group classified as held-for-sale | 14 | (40,647) | - |
| **CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR** | | 94,288 | 55,679 |
| **Cash and cash equivalents consist of:** | | | |
| Cash and bank balances | | 94,288 | 55,679 |

The accompanying notes are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017**

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is engaged principally in the underwriting of Family Takaful including Investment-linked business and all classes of General Takaful business. There have been no significant changes in the nature of these activities during the financial year other than as disclosed in Note 14 to the financial statements.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company are located at:

Registered office

Suite 12.03, 12th Floor
No. 566, Jalan Ipoh
51200 Kuala Lumpur

Principal place of business

8th Floor, No 566
Jalan Ipoh
51200 Kuala Lumpur

The Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd. Both companies are incorporated in Switzerland.

Zurich Insurance Group Ltd is listed on the SIX Swiss Exchange and produces financial statements available for public use.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 29 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

In preparing the Company-level financial statements as a whole, the assets, liabilities, income and expenses of the Takaful funds are combined with those of the Takaful Operator whereby the related inter-fund balances, including Qardhul Hassan, and transactions are eliminated in full.

The inclusion of separate financial information of the Takaful funds and the Takaful Operator together with the Company-level financial statements in the statement of financial position, the statements of income and comprehensive income as well as certain relevant notes to the financial statements represents additional supplementary information presented in accordance with the requirements of BNM pursuant to the Islamic Financial Services Act, 2013 in Malaysia to separate assets, liabilities, income and expenses of the Takaful funds from its own. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for like transactions and events in similar circumstances.

The preparation of financial statements in conformity with the MFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation as specifically disclosed in the accounting policies of the Company.

The preparation of financial statements in conformity of MFRS requires the use of terminology under relevant standards. The use of key terms such as “insurance”, “reinsurance” in the financial statements refers to Shariah compliant Takaful or Islamic insurance transactions, assets or liabilities.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia (“RM”) and all values are rounded to the nearest thousand (RM’000) except when otherwise indicated.

(i) Standards, amendments to published standards and interpretations that are effective.

The amendments and improvements to published standards and interpretations that have been adopted by the Company for the first time for the financial year beginning on or after 1 January 2017 are as follows:

- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses'

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

All new standards, amendments to published standards and interpretations that are effective for the current financial year are not relevant to the Company.

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

A number of new standards and amendments to standards and interpretations are effective for financial years beginning after 1 January 2018. None of these are expected to have a significant effect on the financial statements of the Company, except for the following set out below:

- MFRS 9 “Financial Instruments” will replace MFRS 139 “Financial Instruments : Recognition and Measurement” (effective from 1 January 2018)

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets : amortised cost, fair value through profit or loss and fair value through other comprehensive income (“OCI”). The basis of classifications depends on the entity’s business model and the cash flow characteristics of the financial asset. Investment in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

- MFRS 9 “Financial Instruments” will replace MFRS 139 “Financial Instruments : Recognition and Measurement” (continued)

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

  The Company is in the process of assessing the financial impact onto the financial statements.

- Amendments to MFRS 4 - Applying MFRS 9 ‘Financial Instruments’ with MFRS 4 ‘Insurance Contracts’ effective for annual periods beginning on or after 1 January 2018.

  The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 “Financial Instruments” before the application of MFRS 17, the new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 ‘Insurance Contracts’, the related liabilities from insurance contracts are often measured on amortised cost basis.

  The amendments provide two different approaches for entities: (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and (ii) the overlay approach. Both approaches are optional.

  The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

  An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies MFRS 9 for the first time.

  The Company’s business activity is predominately insurance and hence, it qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

- MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction Contracts' and related interpretation. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  A new five-step process is applied before revenue can be recognised:
  - Identify contracts with customers
  - Identify the separate performance obligations
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standards are as follows :

  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift some revenue which is currently recognised at a point in time at the end of a contract to be recognised over the contract term and vice versa.

  Based on the Company's assessment, there is no expected material impact to the Company's financial statements.

- MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations.

  Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

  The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is reduced over time with profit expense recognised in the profit or loss.

  The Company is in the process of assessing the financial impact onto the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

- MFRS 17 'Insurance Contracts' (effective from 1 January 2021) replaces MFRS 4 'Insurance Contracts'

  MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 "Revenue". An entity is allowed to account for financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

  MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income.

  Alternative measurement models are provided for the different insurance coverage:
  - Simplified Premium Allocation Approach if the insurance coverage period is a year or less
  - Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items

  The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

  Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

  The Company is in the process of assessing the financial impact onto the Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Subsequent cost is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

The residual values and useful life of assets are reviewed and adjusted if appropriate at each date of the statement of financial position. Depreciation of property and equipment is provided so as to allocate the cost of each asset on a straight line basis over the estimated useful life of the assets. The annual depreciation rates are as follows:

| | |
|---|---|
| Computer equipment | 20% |
| Furniture and fittings | 10% |
| Motor vehicles | 10% |
| Office equipment | 10% |
| Renovation | 10% |

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. (See accounting policy Note 2(h) to the financial statements on impairment of non-financial assets.)

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the profit and loss.

(c) Intangible asset

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

(i) it is technically feasible to complete the software product so that it will be available for use;
(ii) management intends to complete the software product and use or sell it;
(iii) there is an ability to use or sell the software product;
(iv) it can be demonstrated how the software product will generate probable future economic benefits;
(v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
(vi) the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised using straight line method over their estimated useful lives.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investments and other financial assets

The Company classifies its investments and other financial assets into the following categories: financial assets measured at fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investment at initial recognition.

(i) Financial assets measured at fair value through profit or loss ("FVTPL")

The Company classifies assets acquired for the purpose of selling in the short-term as held-for-trading or it is part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Investments held by investment-linked funds are designated as FVTPL at inception as they are managed and evaluated on a fair value basis, in accordance with the respective investment strategy and mandate.

Financial assets classified as FVTPL are initially recorded at fair value. Subsequent to initial recognition, these financial assets are remeasured at fair value and any gain or loss arising from the change in fair values is recognised in profit or loss. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

(ii) Loans and receivables ("LAR")

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment loss.

Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investments and other financial assets (continued)

(iii) Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These assets are initially recognised at fair value. After initial measurement AFS financial assets are remeasured at fair value.

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the asset is derecognised or asset is determined to be impaired, except for the General Takaful and Family Takaful funds, where such fair value gains or losses are reported as a separate component of Takaful contract liabilities. Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and the changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in profit or loss, translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity except for the General Takaful and Family Takaful funds, where such fair value gains or losses are reported as a separate component of Takaful contract liabilities until the asset is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred through the statement of comprehensive income or from Takaful contract liabilities to profit or loss.

(e) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published bid prices on the date of the statement of financial position.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments (continued)

The fair value of floating rate, over-night and time deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued profit. The fair value of fixed yield-bearing deposits is measured using estimated discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

The carrying amounts of financial assets and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values. Fair value measurements are classified using a fair value hierarchy based on the observability of the inputs used in the fair value measurement. The levels of the fair value hierarchy are defined as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

- Level 2 inputs are market based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets; (iii) inputs other than quoted prices that are observable and (iv) inputs derived from, or corroborated by, observable market data.

  Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values based on broker quotes and discounted cash flow and investment in structured products with fair values obtained via investment bankers and/or fund managers are considered as Level 2 valuation basis.

- Level 3 inputs are unobservable inputs which reflect the Company’s own assumptions about market pricing using the best internal and external information available. Fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. There are no level 3 valued financial investments held by the Company during the current financial year.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective profit rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the impairment loss is recorded in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each date of the statement of financial position.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity through the statement of comprehensive income or from Takaful contract liabilities to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to profit or loss immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

(i) Takaful receivables

Takaful receivables are recognised when due. They are measured at initial recognition at the fair value. Subsequent to initial recognition, Takaful receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the Takaful receivables are impaired, the Company reduces the carrying amount of the Takaful receivables accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that Takaful receivables are impaired using the procedures adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(g) to the financial statements.

(j) Employee benefits

<u>Short term employee benefits</u>

Wages, salaries, paid annual leave, bonuses and non-monetary benefits, which are short-term employee benefits, are accrued in the financial year in which the associated services are rendered by employees of the Company.

<u>Post employment benefits</u>

The Company has post-employment benefit schemes for eligible employees, which are defined contribution plans.

The Company's contributions to defined contribution plans, including the Employees' Provident Fund, are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Product classification

The Company issues contracts that transfer Takaful risk or financial risk or both.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is the risk other than financial risk.

Takaful contracts are those contracts that transfer significant Takaful risk. A Takaful contract is a contract under which the Company (the insurer) has accepted significant Takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the insured event) adversely affects the participants. As a general guideline, the Company determines whether it has significant Takaful risk by comparing benefits paid with benefits payable if the Takaful event did not occur. Investment contracts are those contracts that do not transfer significant Takaful risk.

Once a contract has been classified as a Takaful contract, it remains a Takaful contract for the remainder of its life-time, even if the Takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as Takaful contracts after inception if Takaful risk becomes significant.

When Takaful contracts contain both a financial risk component and a significant Takaful risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any contributions relating to the Takaful risk component are accounted for on the same bases as Takaful contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

The Company defines Takaful risk to be significant when the ratio of the Takaful risk over the deposit component is not less than 110% of the deposit component at any point of the Takaful contract in force. Based on this definition, all Takaful contracts issued by the Company met the definition of Takaful contracts as at the date of this statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Retakaful

The Company cedes Takaful risk in the normal course of business for most of its businesses. Retakaful assets represent balances due from retakaful companies. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related retakaful contracts.

Ceded retakaful arrangements do not relieve the Company from its obligations to participants. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

Retakaful assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the retakaful asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the retakaful operators. The impairment loss is recorded in profit or loss.

Gains or losses on buying retakaful are recognised in profit or loss immediately at the date of purchase and are not amortised.

The Company also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable. Contribution and claims on assumed retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the retakaful business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the related retakaful contract. Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Retakaful contracts that do not transfer significant Takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicitly identified contribution or fees to be retained by the retakaful operator. Investment income on these contracts is accounted for using the effective yield method when accrued.

(m) General Takaful underwriting results

The General Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and consists of unearned contribution reserves and accumulated surplus attributable to participants which represents the participants' share in the net surplus of the General Takaful fund distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. The General Takaful underwriting results are determined for each class of General Takaful business after taking into account retakaful, wakalah fee, unearned contributions and claims incurred.

Any deficit in the General takaful fund will be made good via a benevolent loan or Qardhul Hassan from the Takaful Operator.

Contribution income

Contribution income is recognised in a financial year in respect of risks assumed during that particular year. Contributions from direct business are recognised during the financial year upon the issuance of Takaful certificates. Contributions in respect of risks incepted for which Takaful certificates have not been raised as of the date of the statement of financial position are accrued at that date.

Outward retakaful contributions are recognised in the same accounting period as the original certificate to which the retakaful relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) General Takaful underwriting results (continued)

Unearned contribution reserves

Unearned contribution reserves ("UCR") represent the portion of the net contributions of Takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year.

In determining the UCR at the date of the statement of financial position, the method that most accurately reflects the actual unearned contribution is used, as follows:

- 1/365th method for all classes of General Takaful business within Malaysia; and
- Time apportionment method for non-annual certificates and first year annual certificates coverage period of more than one year

with a further reduction for Wakalah fee expenses to reflect the Wakalah business principle.

Provision for outstanding claims

A liability for outstanding claims is recognised in respect of both direct Takaful and inward retakaful. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the date of the statement of financial position.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported ("IBNR") at the date of the statement of financial position, based on an actuarial valuation by an independent qualified actuary.

Commission and agency expenses

Commission and agency expenses which are costs directly incurred in securing contributions on Takaful certificates, net of commission income derived from retakaful in the course of ceding of contributions, are charged to profit or loss of the General Takaful business as part of Wakalah fees payable to the Takaful Operator (see Note 2(r) to the financial statements) in the financial year in which they are incurred.

Deficits/accumulated deficits

Deficits reported by the General Takaful fund during the financial year are reported as a loss in profit or loss of the General Takaful fund to the extent that there are no unallocated surplus balances residing within the General Takaful contract liabilities. Accordingly, accumulated deficits and available-for-sale reserve attributable to Takaful Operator are treated as an equity in the financial statements of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Family Takaful underwriting results

The Family Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and includes the amount attributable to participants. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund and is attributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

Any actuarial deficit in the Family Takaful fund will be made good via a benevolent loan or Qardhul Hassan from the Takaful Operator.

Contribution income

Contribution income represents contribution recognised in the Family Takaful and Investment-linked funds.

Contribution income from the Family Takaful fund is recognised as soon as the amount can be reliably measured. First contribution is recognised from inception date and subsequent contribution is recognised when it is due. At the end of the financial year, all contributions are accounted for to the extent that they can be reliably measured.

Outward retakaful contributions are recognised in the same accounting periods as the original certificates to which the retakaful relates.

Contribution income of the Investment-linked fund includes net creation of units, which represent contributions paid by participants as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on receipt basis.

Provision for outstanding claims

Claims and settlement costs that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

Recoveries on retakaful claims are accounted for in the same financial year as the original claims are recognised.

Claims and provisions for claims arising on Family Takaful certificates including settlement costs, less retakaful recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a Family Takaful certificate are recognised as follows:

(i) maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates;

(ii) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

Deficits/accumulated deficits

Deficits reported by the Family Takaful fund during the financial year are reported as a loss in profit or loss of the Family Takaful fund to the extent that there are no unallocated surplus balances residing within the Family Takaful contract liabilities. Accordingly, accumulated deficits and available-for-sale reserve attributable to Takaful Operator are treated as an equity in the statement of financial positon of the Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Takaful contract liabilities

Family Takaful contract liabilities

Family Takaful contract liabilities are recognised when contracts are entered into and contributions are charged.

A liability adequacy test is performed at 75 percentile confidence level, in line with BNM's valuation guidelines on Family Takaful business and the requirements of MFRS 4 Insurance Contract. Claim rates, surrender assumptions and other valuation parameters are determined at a 75 percentile confidence level.

For Investment-linked products, the non-unit liabilities were valued on a cash flow basis by projecting tabarru' (risk charges) stream on a certificate basis, taking into account expected death and surrenders as decrements. The tabarru' streams were then compared against the corresponding projected mortality and other risk benefits. Future deficits were reserved on a present value basis, using the risk free spot rates of return, based on Sterling Discounted Cash Flow ("SDCF") method. The SDCF approach is adopted to ensure all future obligations can be met without recourse to further finance or capital support at any future time over the term of the certificate. The higher of the UCR and total present value of deficits was taken as the actuarial liability. The value of Participant Investment Account ("PIA") is taken as the unit reserves.

In the case of yearly renewable term products with no savings elements, the liability for such Family Takaful certificate comprises the provision for unearned contributions and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the operator. Where the portfolio demonstrates deteriorating experience, a deficiency reserve is set up as an additional reserve.

For long-term term products with implicit guarantees, the liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of present value of future benefits less the present value of future contributions, discounted at the appropriate risk discount rate.

Expense reserve in the Takaful Operator's fund is determined, such that a consistent method is used between family takaful liabilities and expense liabilities. For instance, for IL products, SDCF is used discounted at appropriate spot rates. For other plans in the non-IL fund, the prospective Gross Premium Valuation is used. For non-guaranteed plans, in particular the medical standalone plans, an unearned wakalah fee methodology is used.

The liability is derecognised when the contract expires, is discharged or is cancelled.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Takaful contract liabilities (continued)

General Takaful contract liabilities

General Takaful contract liabilities are recognised when contracts are entered into and contributions are charged.

These liabilities comprise outstanding claims provisions and reserves for unearned contributions.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of the statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Unearned contributions reserves represents contributions received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as contribution income.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking into account of the investment return expected to arise on assets relating to the relevant general technical provisions. If these estimates show that the carrying amount of the unearned contributions is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

(p) Takaful Operator’s expense liabilities

The expense liabilities of the Takaful Operator consist of expense liabilities of the General and Family Takaful funds which are based on estimations performed by a qualified actuary. The expense liabilities are released over the term of the Takaful certificate and recognised in profit or loss.

(q) Measurement and impairment of Qardhul Hassan

Any deficit in the Takaful risk fund will be made good via a benevolent loan, or Qardhul Hassan, granted by the Takaful Operator to the Takaful funds. Qardhul Hassan shall be repaid from future surplus of the Takaful funds.

Qardhul Hassan is accounted for as receivable and payable in the financial statements of the Takaful Operator and Takaful funds respectively, and is stated at cost. At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. As write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2(h) to the financial statements on impairment of non-financial assets.

Qardhul Hassan payable in the respective Takaful funds is stated at cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Management expenses, commission expenses and Wakalah fee

The acquisition costs, commissions and management expenses are borne by the Takaful Operator. In accordance with principles of Wakalah approved by the Company's Shariah Committee and agreed between the participants and the Takaful Operator, an agreed percentage of the gross contribution will be charged as upfront wakalah fees by the Takaful Operator to the General Takaful and Family Takaful funds to cover the acquisition costs, commissions and management expenses, and recognised as income upon issuance of certificates. Non-upfront wakalah fees are charged by Takaful Operator to Family Takaful fund based on agreed amount or a certain percentage of an amount to cover other costs incurred by the Takaful operator.

(s) Other revenue recognition

Profit including the amount of amortisation of premium and accretion of discount is recognised on a time proportion basis that takes into account the effective yield of the asset.

Dividend income is recognised when the right to receive payment is established.

Gains or losses arising on disposal of investments are credited or charged to profit or loss.

(t) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Committee of the Company. Zakat provision is calculated on 2.5% of the profit before zakat and taxation of the Company for the financial year.

(u) Income taxes

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Dividends

Dividends are recognised as liabilities when the obligation to pay is established.

(w) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(x) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

(y) Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(z) Non-current assets (or disposal group) held-for-sale and discontinued operations

Non-current assets (of disposal groups) are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Company that has been disposed of or is classified as held-for-sale and that represents a separate major line of business. The results of discontinued operations are presented separately in the statement of comprehensive income.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

#### (i) Valuation of General Takaful claims liabilities

The estimation of Claim Liability or equivalently, the ultimate claim liability arising from claims incurred under a Takaful contract, is the Company's most critical accounting estimate.

The Company engages an independent external actuary to compute the reserve required for Incurred but Not Reported Claims. The general approach taken in the actuarial estimation of outstanding claims is to analyse past experience of the Company with respect to the number of claims paid, number of claims open, the value of claims paid and value of claims outstanding. By using generally accepted actuarial techniques, the actuary will use an appropriate assumptions to determine future payment and reserving patterns of the outstanding claims in estimating the expected Ultimate Claim Loss.

As the Company has been in operation for ten and half years, we have placed full credibility on the Company's own claim experience in estimating the Claim Liability.

One of the most commonly used actuarial techniques is Chain Ladder. The chain ladder method involves developing each accident year's claim amount to ultimate loss through the use of loss development factors selected from trends apparent in the historical data and market benchmarks.

When used alongside the Bornheutter Ferguson method, the loss development factors become a credibility weight between actual development and the expected loss taken from the previous valuation results or some other prior estimates.

The frequency/severity method is also utilised in calculating the ultimate loss. The ultimate loss is calculated as the number of open claims multiplied by the selected open severity plus the paid amount to date, where both number of open claims and selected open severity are determined using the chain ladder method.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(i) Valuation of General Takaful claims liabilities (continued)

The IBNR amount is derived by subtracting the claims reported to date from the projected ultimate loss.

The Company holds the IBNR reserve at the 75 percentile confidence level as per Bank Negara's requirements. This means the reserve is expected to be sufficient in most but not all potential scenarios. To detemine the 75% risk margin, the actuary runs a Stochastic Chain Ladder analysis.

The actual value of the future claim liability is dependent upon many factors such as changes in procedures for claims settlement, and social and economic inflation. This means there is an inherent uncertainty in the estimate of the ultimate claim liability. As such, any changes in the future claims environment may result in changes to the estimated claim liability.

(ii) Valuation of General Takaful contribution liabilities

The Company reviews its Unexpired Risks and runs a liability adequacy test to determine whether there is any excess of expected claims at the 75 percentile confidence level and deferred acquisition costs over the unearned contribution at a fund level. If the estimated total Unexpired Risk Reserve ("URR") is higher than the total UCR less related deferred acquisition costs, then the total deficiency will be recognised in profit or loss by setting up a provision for liability adequacy.

(iii) Actuarial liabilities for Family Takaful fund

The Company engages an independent external actuary to perform the actuarial liabilities computation for Family Takaful plans. All products are valued in such a manner that overall the Company holds reserves at 75 percentile confidence level, as prescribed by BNM's valuation guidelines on Family Takaful business. The liabilities are computed by product types, based on the following:

- Investment-Linked Participant Risk Investment Account ("PRIA Investment-Linked")

  This is the risk fund for investment-linked certificates, including the attached riders. The Tabarru' rates are dripped from the Participant Investment Account ("PIA") into the risk fund on a monthly basis. The liabilities in this fund are calculated as the higher of Unearned Tabarru' Reserve ("UTR") or total present value of future deficits. The UTR is calculated by taking half of the monthly drip at the valuation date. The present value of future deficits is based on Sterling Discounted Cash Flow method, to ensure all future obligations can be met without recourse to further finance or capital support at any future time over the term of the certificate, discounted using the risk free spot rates and where claims assumptions are determined at 75 percentile confidence level. For medical riders, the reserves are calculated as the higher of the unexpired risk reserve or the UTR.

  In addition, IBNR claim is also reserved for Medical riders. From the experience study, 1 month average net claims is assumed in calculating IBNR for medical riders.

  The Company also set aside provision for certificates the contributions of which have been waived. This is taken as the present value of future gross contributions to be waived throughout the remaining term of the certificate, discounted using risk free spot rates of returns.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(iii) Actuarial liabilities for Family Takaful fund (continued)

- Ordinary Family Participant Risk Investment Account ("PRIA Ordinary Family") (continued)

  Key product group within this fund include CancerCare, SmartMedic, Medica2015, Patina 2016, Term 80, Takafulife Series, Takaful Senior Gold and Executive 20.

  CancerCare is a guaranteed renewable medical Takaful product with additional death benefit. The contribution reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24$^{th}$ method. For the death benefit, the reserve is calculated by taking the higher of UTR or Gross Premium Valuation ("GPV"), where GPV is using M9903 mortality table discounted at risk-free spot rates of returns.

  SmartMedic is an individual Hospitalisation and Surgical product with guaranteed renewability up to age 79. It also provides funeral expense benefit, which is payable upon death due to all causes. The reserve is calculated as the higher of Unearned Tabarru' Reserve ("UTR") or URR. The UTR is calculated by taking half of the monthly drip at the valuation date. The Contribution reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24$^{th}$ method. URR is a percentage of unearned medical tabarru' where the percentage is determined by analysing the product's loss ratio by certificate year. An additional provision of 1 month of average claims is set aside for IBNR claims.

  Medica*2015* is another individual Hospitalisation and Surgical product that comes with guaranteed renewability up to age 79. The product comes with additional benefits such as funeral expenses which is payable upon death due to all causes, no claim discount ("NCD") and second medical opinion. The reserve is set aside in similar manner to SmartMedic reserving.

  Patina*2016* product is a standalone Personal Accident product with guaranteed renewability up to age 75. The reserve is being calculated as the higher of UTR or total present value of future deficits, determined at certificate level, where the UTR is reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24$^{th}$ method and the present value of future deficits determined using the risk free spot rates and claims assumptions at 75 percentile confidence level.

  The reserves for Takafulife Series, Term 80, Takaful Senior Gold and Executive 20 products are calculated as the higher of UTR or total present value of future deficits, determined at certificate level, where the UTR is equal to half month tabarru' and the present value of future deficits determined using the risk free spot rates and claims assumptions at 75 percentile confidence level.

- Group Fund Risk Investment Account ("GFRIA")

  Currently there are 4 Group products namely Group Term Takaful (GTT), Group Comprehensive Takaful Scheme (GCTS), Group Mortgage Protection Plan and Group Decreasing Term.

  The reserve for GTT and GCTS are calculated as 100% of UTR using the 1/24$^{th}$ method. The reserve for Group Mortgage Protection Plan and Group Decreasing Term are computed using GPV method, discounted at risk free spot rates of returns. Additional provisions of 5.0 months and 6.5 months of average claims are set aside for IBNR Death and Critical Illness claims respectively.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(iv) Valuation of Takaful Operator's fund expenses liabilities

- Expense liabilities from Family Takaful products

  The expense liability calculate on vary by the types of product, with each is calculated at policy level. For Investment-linked or products with PIA, SDCF is used, whereas for non-PIA product, GPV method is used. Yearly renewable product is calculated using uearned wakalah approach. Income comprises future wakalah fees, certificate fees, fund management fees and risk fund surplus after Qardhul Hassan repayments. The outgo comprises future renewal expenses, commissions and agency related expenses.

- Expense liabilities from General Takaful products

  The Expense Liability is determined by selecting the higher of the Unearned Wakalah Fee ("UWF") or the Unearned Expense Reserve ("UER") with provision for adverse deviation at 75 percentile confidence level. The UER contains three components, namely claims handling expenses for the outstanding claims and IBNR, claims handling expenses for the unexpired risks and policy servicing costs on unearned contribution.

At subsequent reporting dates, these reserve estimates will be reassessed for adequacy and reasonableness and revised, accordingly.

(b) Critical judgment in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of a specific policy could materially affect the reported results and financial position of the Company.

Significant judgment is required in determining the income and deferred taxes applicable to the Company's business as a Takaful Operator. There are transactions and calculations for which the ultimate tax determination is subject to agreement with the tax authorities. The Company recognises tax liabilities on anticipated issues based on the best estimate of the amount of taxes expected to be paid. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

4 PROPERTY AND EQUIPMENT

**Takaful Operator/Company**

| | Computer equipment | Furniture and fittings | Motor vehicles | Office equipment | Renovation | Total |
|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cost | | | | | | |
| At 1 January 2016 | 6,823 | 6,914 | 397 | 3,797 | 2,625 | 20,556 |
| Additions | 402 | 22 | - | 38 | 19 | 481 |
| Write-offs | (3,671) | (77) | - | (22) | - | (3,770) |
| Disposals | - | (16) | - | - | - | (16) |
| At 31 December 2016/1 January 2017 | 3,554 | 6,843 | 397 | 3,813 | 2,644 | 17,251 |
| Additions | - | - | - | - | - | - |
| Write-offs | (813) | - | - | (4) | - | (817) |
| Disposals | - | (1) | - | (365) | - | (366) |
| Transfer to assets of a disposal group classified as held-for-sale (Note 14) | (1,269) | (186) | - | (74) | (88) | (1,617) |
| At 31 December 2017 | 1,472 | 6,656 | 397 | 3,370 | 2,556 | 14,451 |

4 PROPERTY AND EQUIPMENT (CONTINUED)

**Takaful Operator/Company**

| | Computer Equipment RM'000 | Furniture and fittings RM'000 | Motor vehicles RM'000 | Office equipment RM'000 | Renovation RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| Accumulated depreciation | | | | | | |
| At 1 January 2016 | 4,743 | 2,569 | 208 | 1,315 | 883 | 9,718 |
| Charge for the financial year (Note 22(a)) | 1,050 | 692 | 40 | 382 | 263 | 2,427 |
| Write-offs | (3,618) | (51) | - | (14) | - | (3,683) |
| Disposals | - | (7) | - | - | - | (7) |
| At 31 December 2016/1 January 2017 | 2,175 | 3,203 | 248 | 1,683 | 1,146 | 8,455 |
| Charge for the financial year (Note 22(a)) | 850 | 1,767 | 40 | 778 | 785 | 4,220 |
| Write-offs | (813) | - | - | - | - | (813) |
| Disposals | - | (1) | - | (201) | - | (202) |
| Transfer to assets of a disposal group classified as held-for-sale (Note 14) | (900) | (186) | - | (74) | (88) | (1,248) |
| At 31 December 2017 | 1,312 | 4,783 | 288 | 2,186 | 1,843 | 10,412 |
| Net carrying amount | | | | | | |
| At 31 December 2016 | 1,379 | 3,640 | 149 | 2,130 | 1,498 | 8,796 |
| At 31 December 2017 | 160 | 1,873 | 109 | 1,184 | 713 | 4,039 |

5 INTANGIBLE ASSETS

**Takaful Operator/Company**

| | 2017 | 2016 |
|---|---|---|
| | RM'000 | RM'000 |
| Cost | | |
| At 1 January | 4,804 | 12,765 |
| Additions | 2,143 | 3,144 |
| Write-offs | (514) | (11,105) |
| Transfer to assets of a disposal group classified as held-for-sale (Note 14(a)) | (2,481) | - |
| At 31 December | 3,952 | 4,804 |
| Accumulated amortisation | | |
| At 1 January | 1,544 | 9,383 |
| Amortisation for the financial year (Note 22(a)) | 1,271 | 2,195 |
| Write-offs | (218) | (10,034) |
| Transfer to assets of a disposal group classified as held-for-sale (Note 14) | (594) | - |
| At 31 December | 2,003 | 1,544 |
| Net carrying amount | | |
| At 31 December | 1,949 | 3,260 |

The intangible assets consist mainly of development costs and costs that are directly associated with identifiable software systems controlled by the Company that do not form an integral part of the hardware, and that will generate economic benefits exceeding costs beyond one year.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

6 INVESTMENTS

| | Takaful Operator | Family Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Malaysian Government Securities / Government Investment Issues | 8,117 | - | 8,117 |
| Islamic debt securities, unquoted | 158,219 | 148,580 | 306,799 |
| Shariah-approved quoted equities | - | 106,515 | 106,515 |
| Investment-linked units | 3,045 | - | - |
| Unit trusts | - | 242,343 | 242,343 |
| Deposits with financial institutions | - | - | - |
| | 169,381 | 497,438 | 663,774 |

| | Takaful Operator | Family Takaful Fund | General Takaful Fund | Company |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At 31 December 2016 | | | | |
| Islamic debt securities, unquoted | - | 120,561 | 57,859 | 178,420 |
| Shariah-approved quoted equities | - | 79,968 | - | 79,968 |
| Investment-linked units | 2,800 | - | - | - |
| Unit trusts | - | 214,359 | - | 214,359 |
| Deposits with financial institutions | 161,856 | 27,948 | 119,357 | 309,161 |
| | 164,656 | 442,836 | 177,216 | 781,908 |

6 INVESTMENTS (CONTINUED)

The Company's investments are summarised by measurement categories as follows:

At 31 December 2017

| | Takaful Operator | Family Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Available-for-sale ("AFS") | 166,336 | 67,909 | 234,245 |
| Fair value through profit or loss ("FVTPL") | 3,045 | 429,529 | 429,529 |
| | 169,381 | 497,438 | 663,774 |
| The following investments mature after 12 months: | | | |
| AFS | 133,004 | 67,909 | 200,913 |

At 31 December 2016

| | Takaful Operator | Family Takaful Fund | General Takaful Fund | Company |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Loans and receivables ("LAR") | 161,856 | 27,948 | 119,357 | 309,161 |
| Available-for-sale ("AFS") | - | 67,674 | 57,859 | 125,533 |
| Fair value through profit or loss ("FVTPL") | 2,800 | 347,214 | - | 347,214 |
| | 164,656 | 442,836 | 177,216 | 781,908 |
| The following investments mature after 12 months: | | | | |
| AFS | - | 67,674 | 57,859 | 125,533 |

6 INVESTMENTS (CONTINUED)

(a) LAR investments

At 31 December 2017

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|
| Amortised cost: | | | |
| Fixed and call deposits with licensed financial institutions | - | - | - |

At 31 December 2016

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | General Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|---|
| Amortised cost: | | | | |
| Fixed and call deposits with licensed financial institutions | 161,856 | 27,948 | 119,357 | 309,161 |

As at 31 December 2016, the cash and cash equivalents in the LAR of RM16,068,000 have a maturity period of three to twelve months.

(b) AFS investments

At 31 December 2017

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|
| Fair value: | | | |
| Malaysian Government Securities Government Investment Issue | 8,117 | - | 8,117 |
| Islamic debt-securities, unquoted | 158,219 | 67,909 | 226,128 |
| | 166,336 | 67,909 | 234,245 |

At 31 December 2016

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | General Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|---|
| Fair value: | | | | |
| Islamic debt-securities, unquoted | - | 67,674 | 57,859 | 125,533 |

6 INVESTMENTS (CONTINUED)

(c) FVTPL investments

| | Takaful Operator | Family Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Fair value at designation: | | | |
| Shariah-approved quoted equities | - | 106,515 | 106,515 |
| Islamic debt securities, unquoted | - | 80,671 | 80,671 |
| Investment-linked units | 3,045 | - | - |
| Unit trusts | - | 242,343 | 242,343 |
| | 3,045 | 429,529 | 429,529 |
| At 31 December 2016 | | | |
| Fair value at designation: | | | |
| Shariah-approved quoted equities | - | 79,968 | 79,968 |
| Islamic debt securities, unquoted | - | 52,887 | 52,887 |
| Investment-linked units | 2,800 | - | - |
| Unit trusts | - | 214,359 | 214,359 |
| | 2,800 | 347,214 | 347,214 |

(d) Carrying value of investments

The movement of financial assets are summarised in the table below by measurement category:

(i) Takaful Operator

| | LAR | AFS | FVTPL | Total |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2016 | 98,196 | 10,456 | 3,583 | 112,235 |
| Purchases | 63,535 | - | - | 63,535 |
| Disposals including maturities and redemptions | - | (10,060) | (800) | (10,860) |
| Fair value loss recorded in: | | | | |
| Profit or loss | - | - | 70 | 70 |
| Other comprehensive income | - | 96 | - | 96 |
| Movement in accrued profit | 125 | (490) | (53) | (418) |
| Amortisation adjustment (Note 18(a)) | - | (2) | - | (2) |
| At 31 December 2016/1 January 2017 | 161,856 | - | 2,800 | 164,656 |
| Purchases | - | 165,297 | - | 165,297 |
| Disposals including maturities and redemptions | (88,539) | - | - | (88,539) |
| Fair value gain recorded in: | | | | |
| Profit or loss (Note 20) | - | - | 245 | 245 |
| Other comprehensive income | - | (47) | - | (47) |
| Movement in accrued profit | 867 | 1,365 | - | 2,232 |
| Amortisation adjustment (Note 18(a)) | | (279) | - | (279) |
| Transfer to assets of a disposal group classified as held-for-sale | (74,184) | | | (74,184) |
| At 31 December 2017 | - | 166,336 | 3,045 | 169,381 |

6 INVESTMENTS (CONTINUED)

(d) Carrying value of investments (continued)

(ii) General Takaful Fund

| | HTM | LAR | AFS | Total |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2016 | 15,245 | 58,159 | 62,662 | 136,066 |
| Purchases | - | 61,030 | - | 61,030 |
| Disposals including maturities and redemptions | - | - | (19,967) | (19,967) |
| Reclassification | (15,245) | - | 15,245 | - |
| Fair value loss recorded in: | | | | |
| Takaful contract liabilities (Note 10(b)(iii)) | - | - | 97 | 97 |
| Movement in accrued profit | - | 168 | (67) | 101 |
| Amortisation adjustment (Note 18(d)) | - | - | (111) | (111) |
| At 31 December 2016/1 January 2017 | - | 119,357 | 57,859 | 177,216 |
| Purchases | - | - | 116,056 | 116,056 |
| Disposals including maturities and redemptions | - | (118,790) | (15,016) | (133,806) |
| Fair value loss recorded in: | | | | |
| Takaful contract liabilities (Note 10(b)(iii)) | - | - | 369 | 369 |
| Movement in accrued profit | - | (246) | 756 | 510 |
| Amortisation adjustment (Note 18(d)) | - | - | (332) | (332) |
| Transfer to assets of a disposal group classified as held-for-sale (Note 14(a)) | - | (321) | (159,692) | (160,013) |
| At 31 December 2017 | - | - | - | - |

(iii) Family Takaful fund

| | HTM | LAR | AFS | FVTPL | Total |
|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2016 | 25,387 | 41,233 | 41,620 | 351,586 | 459,826 |
| Purchases | - | - | - | 163,996 | 163,996 |
| Disposals including maturities and redemptions | - | (13,281) | - | (153,930) | (167,211) |
| Reclassification | (25,387) | - | 25,387 | - | - |
| Fair value gain recorded in: | | | | | |
| Profit and loss (Note 19) | - | - | - | (14,351) | (14,351) |
| Takaful contract liabilities (Note 10(a)) | - | - | 477 | - | 477 |
| Movement in accrued profit | - | (4) | 263 | (48) | 211 |
| Amortisation adjustment (Note 18(b)) | - | - | (73) | (39) | (112) |
| At 31 December 2016/1 January 2017 | - | 27,948 | 67,674 | 347,214 | 442,836 |
| Purchases | - | - | - | 209,658 | 209,658 |
| Disposal including maturities and redemptions | - | (27,934) | - | (152,554) | (180,488) |
| Fair value gain/(loss) recorded in: | | | | | |
| Profit or loss | - | - | - | 25,438 | 25,438 |
| Takaful contract liabilities (Note 10(a)) | - | - | 315 | - | 315 |
| Movement in accrued profit | - | (14) | (21) | (227) | (262) |
| Amortisation adjustment (Note 18(b)) | - | - | (59) | - | (59) |
| At 31 December 2017 | - | - | 67,909 | 429,529 | 497,438 |

6 INVESTMENTS (CONTINUED)

(d) Carrying value of investments (continued)

(iv) Company

| | HTM | LAR | AFS | FVTPL | Total |
|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2016 | 40,632 | 197,112 | 114,738 | 352,914 | 705,396 |
| Purchases | - | 124,565 | - | 163,996 | 288,561 |
| Disposals including maturities and redemptions | - | (12,806) | (30,027) | (155,275) | (198,108) |
| Reclassification | (40,632) | - | 40,632 | - | - |
| Fair value gain recorded in: | | | | | |
| Profit or loss | - | - | - | (14,281) | (14,281) |
| Takaful contract liabilities | - | - | 574 | - | 574 |
| Other comprehensive income | - | - | 96 | - | 96 |
| Movement in accrued profit | - | 290 | (294) | (101) | (105) |
| Amortisation adjustment (Note 18(c)) | - | - | (186) | (39) | (225) |
| At 31 December 2016/1 January 2017 | - | 309,161 | 125,533 | 347,214 | 781,908 |
| Purchases | - | - | 281,353 | 209,658 | 491,011 |
| Disposals including maturities and redemptions | - | (235,263) | (15,016) | (152,554) | (402,823) |
| Fair value gain/(loss) recorded in: | | | | | |
| Profit or loss | - | - | - | 25,438 | 25,438 |
| Takaful contract liabilities | - | - | 684 | - | 743 |
| Other comprehensive income | - | - | (47) | - | (47) |
| Movement in accrued profit | - | 607 | 2,100 | (227) | 2,585 |
| Amortisation adjustment (Note 18(c)) | - | - | (670) | - | (834) |
| Transfer to assets of a disposal group classified as held-for-sale (Note 14(a)) | - | (74,505) | (159,692) | - | (234,197) |
| At 31 December 2017 | - | - | 234,245 | 429,529 | 663,774 |

6 INVESTMENTS (CONTINUED)

(e) Fair values of investments

Recurring fair value measurements:

The following tables show the analysis of the different hierarchy of fair values for financial instruments recorded at fair value and financial instruments not measured at fair value but fair values are disclosed:

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| (i) Takaful Operator | | | |
| At 31 December 2017 | | | |
| (a) FVTPL investments | | | |
| Investment-linked units | 3,045 | - | 3,045 |
| (b) AFS investments | | | |
| Malaysian Government Securities | - | 8,117 | 8,117 |
| Islamic debt securities, unquoted | - | 158,219 | 158,219 |
| | - | 166,336 | 166,336 |
| (i) Takaful Operator | | | |
| At 31 December 2016 | | | |
| (a) FVTPL investments | | | |
| Investment-linked units | 2,800 | - | 2,800 |
| (ii) General Takaful fund | | | |
| At 31 December 2016 | | | |
| (a) AFS investments | | | |
| Islamic debt securities, unquoted | - | 57,859 | 57,859 |

6 INVESTMENTS (CONTINUED)

(e) Fair values of investments (continued)

Recurring fair value measurements: (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| (iii) Family Takaful fund | | | | |
| At 31 December 2017 | | | | |
| (a) FVTPL investments | | | | |
| Islamic debt securities, unquoted | - | 80,671 | - | 80,671 |
| Shariah-approved quoted equities | 106,513 | - | 2 | 106,515 |
| Unit trusts | 242,343 | - | - | 242,343 |
| | 348,856 | 80,671 | 2 | 429,529 |
| (b) AFS investments | | | | |
| Islamic debt securities, unquoted | - | 67,909 | - | 67,909 |
| At 31 December 2016 | | | | |
| (a) FVTPL investments | | | | |
| Islamic debt securities, unquoted | - | 52,887 | - | 52,887 |
| Shariah-approved quoted equities | 79,968 | - | - | 79,968 |
| Investment-linked units | 214,359 | - | - | 214,359 |
| | 294,327 | 52,887 | - | 347,214 |
| (b) AFS investments | | | | |
| Islamic debt securities, unquoted | - | 67,674 | - | 67,674 |

6 INVESTMENTS (CONTINUED)

(e) Fair values of investments (continued)

Recurring fair value measurements: (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| (iv) Company | | | | |
| At 31 December 2017 | | | | |
| (a) FVTPL investments | | | | |
| Islamic debt securities, unquoted | - | 80,671 | - | 80,671 |
| Shariah-approved quoted equities | 106,513 | - | 2 | 106,515 |
| Unit trusts | 242,343 | - | - | 242,343 |
| | 348,856 | 80,671 | 2 | 429,529 |
| (b) AFS investments | | | | |
| Malaysian Government Securities | - | 5,089 | - | 5,089 |
| Islamic debt securities, unquoted | - | 229,156 | - | 229,156 |
| | - | 234,245 | - | 234,245 |
| Discontinued Operations : | | | | |
| (b) AFS investments | | | | |
| Islamic debt securities, unquoted | - | 159,692 | - | 159,692 |
| At 31 December 2016 | | | | |
| (a) FVTPL investments | | | | |
| Islamic debt securities, unquoted | - | 52,887 | - | 52,887 |
| Shariah-approved quoted equities | 79,968 | - | - | 79,968 |
| Unit trusts | 214,359 | - | - | 214,359 |
| | 294,327 | 52,887 | - | 347,214 |
| (b) AFS investments | | | | |
| Islamic debt securities, unquoted | - | 125,533 | - | 125,533 |

7 TAKAFUL RECEIVABLES

| | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|
| At 31 December 2017 | | |
| Due contributions including agents/brokers and co-insurers | 2,777 | 2,777 |
| Due from retakaful and cedants | 440 | 440 |
| | 3,217 | 3,217 |
| Allowance for impairment loss | - | - |
| | 3,217 | 3,217 |
| Receivable within 12 months | 3,217 | 3,217 |
| Offsetting financial assets and financial liabilities | | |
| Gross amounts of recognised financial assets | 35,275 | 35,275 |
| Less: | | |
| Gross amounts of recognised financial liabilities set off in the statement of financial position | (32,058) | (32,058) |
| Net amounts of financial assets presented in the statement of financial position | 3,217 | 3,217 |

At 31 December 2016

| | General Takaful Fund RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|
| Due contributions including agents/brokers and co-insurers | 34,888 | 2,744 | 37,632 |
| Due from retakaful and cedants | 2,286 | 434 | 2,720 |
| | 37,174 | 3,178 | 40,352 |
| Allowance for impairment loss | (7,899) | - | (7,899) |
| | 29,275 | 3,178 | 32,453 |
| Receivable within 12 months | 29,275 | 3,178 | 32,453 |
| Offsetting financial assets and financial liabilities | | | |
| Gross amounts of recognised financial assets | 42,582 | 9,494 | 52,076 |
| Less: | | | |
| Gross amounts of recognised financial liabilities set off in the statement of financial position | (5,408) | (6,316) | (11,724) |
| Net amounts of financial assets presented in the statement of financial position | 37,174 | 3,178 | 40,352 |

8 RETAKAFUL ASSETS

| | RM'000 |
|---|---|
| At 31 December 2017 | |
| Retakaful of Takaful contracts (Note 10) | |
| - Family Takaful Fund | 15,535 |
| At 31 December 2016 | |
| Retakaful of Takaful contracts (Note 10) | |
| - Family Takaful Fund | 14,949 |
| - General Takaful Fund | 267,684 |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

9 OTHER RECEIVABLES

| | Note | Takaful Operator | Family Takaful Fund | Company |
|---|---|---|---|---|
| | | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | | |
| Staff financing | | 6 | - | 6 |
| Other receivables, deposits and Prepayments | | 1,482 | 38 | 1,520 |
| | | 1,488 | 38 | 1,526 |
| Inter-fund balances | | | | |
| Amount due from General Takaful fund | 12 | - | - | - |
| Certificate fees receivable from Family Takaful fund | 12 | - | - | - |
| Tharawat fees receivable from Family Takaful fund | 12 | 566 | - | - |
| Amount due from Takaful Operator | 12 | - | - | - |
| Amount due from from Family Takaful fund | 12 | 2,274 | - | - |
| Surplus receivable from Family Takaful fund | 12 | 13,500 | - | - |
| Total other receivables | | 17,828 | 38 | 1,526 |
| Receivable within 12 months | | 17,828 | 38 | 1,526 |

9 OTHER RECEIVABLES (CONTINUED)

| | Note | Takaful Operator | General Takaful Fund | Family Takaful Fund | Company |
|---|---|---|---|---|---|
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| At 31 December 2016 | | | | | |
| Staff financing | | 87 | - | - | 87 |
| Knock-for-knock ("KFK") claims recoverable | | - | 161 | - | 161 |
| KFK claims recoverable at gross | | - | 199 | - | 199 |
| Less: Allowance for impairment loss | | - | (38) | - | (38) |
| Other receivables, deposits and prepayments | | 5,387 | 871 | 1,214 | 7,472 |
| | | 5,474 | 1,032 | 1,214 | 7,720 |
| Inter-fund balances | | | | | |
| Amount due from General Takaful fund | 12 | 1,784 | - | 125 | - |
| Certificate fees receivable from Family Takaful fund | 12 | 1,361 | - | - | - |
| Tharawat fees receivable from Family Takaful fund | 12 | 429 | - | - | - |
| Amount due from Takaful Operator | 12 | - | - | 11,559 | - |
| Surplus receivable from General Takaful fund | 12 | 3,998 | - | - | - |
| Surplus receivable from Family Takaful fund | 12 | 13,000 | - | - | - |
| | | 20,572 | - | 11,684 | - |
| Total other receivables | | 26,046 | 1,032 | 12,898 | 7,720 |
| Receivable within 12 months | | 26,046 | 1,032 | 12,898 | 7,720 |

The carrying amounts approximate their fair values as at the date of statement of financial position due to the relatively short-term maturity of these balances.

(a) Movement in allowance for impairment

| | Takaful Operator | General Takaful Fund | Family Takaful Fund | Company |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | |
| At 1 January | - | 38 | - | 38 |
| Transfer to assets of a disposal group classified as held-for-sale | - | (38) | - | (38) |
| At 31 December | - | - | - | - |
| 2016 | | | | |
| At 1 January | - | 38 | - | 38 |
| Allowance during the financial year | - | - | - | - |
| At 31 December | - | 38 | - | 38 |

## 10 TAKAFUL CONTRACT LIABILITIES

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Family Takaful (Note 10(a)) | 561,560 | (15,535) | 546,025 | 493,391 | (14,949) | 478,442 |
| General Takaful (Note 10(b)) | | | | | | |
| - Continuing Operations | - | - | - | 415,899 | (267,684) | 148,215 |
| - Discontinued Operations (Note 14) | 390,834 | (188,794) | 202,040 | - | - | - |
| Total | 952,394 | (204,355) | 748,065 | 909,290 | (282,633) | 626,657 |
| Less: Net asset value of investment-linked units held by Takaful Operator | 3,045 | - | 3,045 | (2,800) | - | (2,800) |
| | 949,349 | (204,355) | 745,020 | 906,490 | (282,633) | 623,857 |

(a) Family Takaful

The Family Takaful contract liabilities and movements are further analysed as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Certificateholders' liabilities | 84,941 | (13,567) | 71,374 | 85,287 | (13,284) | 72,003 |
| Net asset value attributable to unitholders | 440,868 | - | 440,868 | 386,543 | - | 386,543 |
| Actuarial liabilities | 525,809 | (13,567) | 512,242 | 471,830 | (13,284) | 458,546 |
| Unallocated surplus attributable to unitholders | 16,857 | - | 16,857 | 8,144 | - | 8,144 |
| Accumulated deficits of non-investment-linked funds | (17,651) | - | (17,651) | (8,734) | - | (8,734) |
| Qardhul Hassan | 17,651 | - | 17,651 | 8,734 | - | 8,734 |
| Claims liabilities | 17,823 | (1,968) | 15,855 | 12,721 | (1,665) | 11,056 |
| Available-for-sale fair value adjustment | 1,071 | - | 1,071 | 696 | - | 696 |
| | 561,560 | (15,535) | 546,025 | 493,391 | (14,949) | 478,442 |

| | Gross | Re-Takaful | Net |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 1 January 2016 | 468,705 | (12,399) | 456,306 |
| Contributions received (Note 17(a)) | 276,422 | (15,551) | 260,871 |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 21(a)(i),(ii)) | (140,998) | 14,345 | (126,653) |
| Movement in claims liabilities | (436) | 44 | (392) |
| Experience variance on inforce Takaful certificates | 4,013 | 798 | 4,811 |
| Reserve on new policies | (7,457) | 1,708 | (5,749) |
| Miscellaneous | (13,263) | (3,894) | (17,157) |
| Fees deducted | (73,725) | - | (73,725) |
| Surplus distributed to Takaful Operator | (13,000) | - | (13,000) |
| Qardhul Hassan | (7,309) | - | (7,309) |
| Movement in AFS fair value adjustments | | | |
| - gross fair value changes (Note 6(e)(iii)) | 477 | - | 477 |
| - deferred tax (Note 13) | (38) | - | (38) |
| Movement in AFS fair value adjustments | 439 | - | 439 |
| At 31 December 2016 | 493,391 | (14,949) | 478,442 |

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful (continued)

| | Gross RM'000 | Re-Takaful RM'000 | Net RM'000 |
|---|---|---|---|
| At 1 January 2017 | 493,391 | (14,949) | 478,442 |
| Contributions received (Note 17(a)) | 277,687 | (20,051) | 257,636 |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 21(a)(i),(ii)) | (139,700) | 18,630 | (121,070) |
| Movement in claims liabilities | (5,102) | 303 | (4,799) |
| Experience variance on inforce Takaful certificates | 1,314 | (887) | 427 |
| Reserve on new policies | (5,660) | 1,196 | (4,464) |
| Miscellaneous | 21,306 | 223 | 21,529 |
| Fees deducted | (77,468) | - | (77,468) |
| Surplus distributed to Takaful Operator | (13,500) | - | (13,500) |
| Qardhul Hassan | 8,917 | - | 8,917 |
| Movement in AFS fair value adjustments | | | |
| - gross fair value changes (Note 6(e)(iii)) | 315 | - | 315 |
| - deferred tax (Note 13) | 60 | - | 60 |
| Movement in AFS fair value adjustments | 375 | - | 375 |
| At 31 December 2017 | 561,560 | (15,535) | 546,025 |

(b) General Takaful

The General Takaful contract liabilities and movements are further analysed as follows:

| | Discontinued Operations | | 2017 | Continuing Operations | | 2016 |
|---|---|---|---|---|---|---|
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Provision for claims | 191,370 | (115,525) | 75,845 | 206,592 | (142,974) | 63,618 |
| Provision for IBNR | 49,353 | (27,627) | 21,726 | 57,464 | (38,640) | 18,824 |
| Provision for adverse Deviation | 24,982 | (15,789) | 9,193 | 27,604 | (19,578) | 8,026 |
| Claim liabilities (i) | 265,705 | (158,941) | 106,764 | 291,660 | (201,192) | 90,468 |
| Unearned contribution reserves (ii) | 114,678 | (29,852) | 84,825 | 116,983 | (66,492) | 50,491 |
| Available-for-sale reserves fair value adjustment (iii) | 142 | - | 142 | (173) | - | (173) |
| Unallocated surplus (iv) | 10,309 | - | 10,309 | 7,429 | - | 7,429 |
| | 390,834 | (188,794) | 202,040 | 415,899 | (267,684) | 148,215 |

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful (continued)

| | Discontinued Operations | | | Continued Operations | | |
|---|---|---|---|---|---|---|
| | | | 2017 | | | 2016 |
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| (i) Claims liabilities | | | | | | |
| At 1 January | 291,660 | (201,192) | 90,468 | 255,634 | (180,314) | 75,320 |
| Claims incurred in the current accident financial Year | 128,441 | (59,582) | 68,859 | 179,896 | (107,399) | 72,497 |
| Other movements in claims incurred in prior accident years | 9,971 | (4,407) | 5,564 | (21,777) | 15,167 | (6,610) |
| Claims paid during the financial year (Note 21(b)(i),(ii)) | (153,659) | 91,462 | (62,197) | (126,689) | 73,929 | (52,760) |
| Movements in provision for adverse deviation | (10,708) | 14,778 | 4,070 | 4,596 | (2,575) | 2,021 |
| At 31 December | 265,705 | (158,941) | 106,764 | 291,660 | (201,192) | 90,468 |
| (ii) Unearned contribution Reserves | | | | | | |
| At 1 January | 116,983 | (66,492) | 50,491 | 123,661 | (77,695) | 45,966 |
| Contributions written in the financial year (Note 17(b)) | 281,280 | (98,456) | 182,824 | 266,476 | (155,982) | 110,494 |
| Contributions earned during the financial year (Note 17(b)) | (283,585) | 135,095 | (148,490) | (273,154) | 167,185 | (105,969) |
| At 31 December | 114,678 | (29,853) | 84,825 | 116,983 | (66,492) | 50,491 |

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful (continued)

(iii) Available-for-sale reserve

| | Gross RM'000 | Deferred tax RM'000 | Net RM'000 |
|---|---|---|---|
| 2017 | | | |
| At 1 January | (228) | 55 | (173) |
| Fair value movements arising from AFS investments | 369 | (54) | 315 |
| Derecognition upon disposal of AFS investments | - | - | - |
| At 31 December | 141 | 1 | 142 |
| 2016 | | | |
| At 1 January | (282) | 71 | (211) |
| Fair value movements arising from AFS investments | 97 | (26) | 71 |
| Derecognition upon disposal of AFS investments | (43) | 10 | (33) |
| | 54 | (16) | 38 |
| At 31 December | (228) | 55 | (173) |

(iv) Unallocated surplus

| | Gross RM'000 | Retakaful RM'000 | Net RM'000 |
|---|---|---|---|
| 2017 | | | |
| Discontinued Operations | | | |
| At 1 January | 7,429 | - | 7,429 |
| Surplus during the financial year | 12,550 | - | 12,550 |
| Surplus distributed during the year | (9,670) | - | (9,670) |
| At 31 December | 10,309 | - | 10,309 |
| 2016 | | | |
| Continuing Operations | | | |
| At 1 January | 1,715 | - | 1,715 |
| Surplus during the financial year | 10,674 | - | 10,674 |
| Surplus distributed during the year | (4,960) | | (4,960) |
| At 31 December | 7,429 | - | 7,429 |

11 TAKAFUL PAYABLES

| | Family Takaful Fund | Company |
|---|---|---|
| | RM'000 | RM'000 |
| At 31 December 2017 | | |
| Due to agents and intermediaries | - | - |
| Due to retakaful operators and cedants | 3,494 | 3,494 |
| | 3,494 | 3,494 |
| Payable within 12 months | 3,494 | 3,494 |
| Offsetting financial assets and financial liabilities | | |
| Gross amounts of recognised financial liabilities | 35,552 | 35,552 |
| Less: | | |
| Gross amounts of recognised financial assets set off in the statement of financial position | (32,058) | (32,058) |
| Net amounts of financial liabilities presented in the statement of financial position | 3,494 | 3,494 |

| | Family Takaful Fund | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2016 | | | |
| Due to agents and intermediaries | - | 8,450 | 8,450 |
| Due to retakaful operators and cedants | 2,614 | 28,078 | 30,692 |
| | 2,614 | 36,528 | 39,142 |
| Payable within 12 months | 2,614 | 36,528 | 39,142 |
| Offsetting financial assets and financial liabilities | | | |
| Gross amounts of recognised financial liabilities | 8,930 | 41,936 | 50,866 |
| Less: | | | |
| Gross amounts of recognised financial assets set off in the statement of financial position | (6,316) | (5,408) | (11,724) |
| Net amounts of financial liabilities presented in the statement of financial position | 2,614 | 36,528 | 39,142 |

There are no financial assets subjected to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2017 (2016: nil).

The carrying amounts approximate the fair values as at the date of statement of financial position.

## 12 OTHER PAYABLES

| | Note | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|---|
| At 31 December 2017 | | | | |
| Amount due to a related company | | 707 | - | 707 |
| Commission payable | | 21,281 | - | 21,281 |
| Deposits contribution | | - | 9,885 | 9,885 |
| Accruals for staff costs | | 2,514 | - | 2,514 |
| Cash collaterals on performance bond | | - | - | - |
| Other payables and accruals | | 7,024 | 1,762 | 8,786 |
| | | 31,526 | 11,647 | 43,173 |
| Inter-fund balances : | | | | |
| Amount due to Takaful Operator | 9 | - | - | - |
| Certificates fees payable to Takaful Operator | 9 | - | - | - |
| Tharawat fees payable to Takaful Operator | 9 | - | 566 | - |
| Surplus payable to Takaful Operator | 9 | - | 13,500 | - |
| Amount due to Family Takaful Operator | 9 | - | 2,274 | - |
| Amount due from General Takaful Fund | 9 | 552 | - | - |
| | | 552 | 16,340 | - |
| Total other payables | | 32,078 | 27,987 | 43,173 |
| Payable within 12 months | | 32,078 | 27,987 | 43,173 |

At 31 December 2016

| | Note | Takaful Operator RM'000 | General Takaful Fund RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|---|---|
| Amount due to a related company | | 2,400 | - | - | 2,400 |
| Commission payable | | 10,300 | - | - | 10,300 |
| Deposits contribution | | - | - | 8,920 | 8,920 |
| Accruals for staff costs | | 1,892 | - | - | 1,892 |
| Cash collaterals on performance bond | | - | 6,961 | - | 6,961 |
| Other payables and accruals | | 18,220 | 10,597 | 4,823 | 33,640 |
| | | 32,812 | 17,558 | 13,743 | 64,113 |
| Inter-fund balances: | | | | | |
| Amount due to Takaful Operator | 9 | - | 1,784 | - | - |
| Certificates fees payable to Takaful Operator | 9 | - | - | 1,361 | - |
| Tharawat fees payable to Takaful Operator | 9 | - | - | 429 | - |
| Surplus payable to Takaful Operator | 9 | - | 3,998 | 13,000 | - |
| Amount due to Family Takaful Fund | 9 | 11,559 | 125 | - | - |
| Amount due from General Takaful Fund | 9 | - | - | - | - |
| | | 11,559 | 5,907 | 14,790 | - |
| Total other payables | | 44,371 | 23,465 | 28,533 | 64,113 |
| Payable within 12 months | | 44,371 | 23,465 | 28,533 | 64,113 |

The carrying amounts approximate their fair values as at the date of statement of financial position due to the relatively short-term maturity of these balances.

13 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

At 31 December 2017

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|
| Deferred tax (assets) / liabilities | (664) | 1,903 | 1,239 |
| Settled/(recoverable) within 12 months | - | 1,903 | 1,903 |
| Settled/(recoverable) after 12 months | (664) | - | (664) |
| | (664) | 1,903 | 1,239 |

At 31 December 2016

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | General Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|---|
| Deferred tax liabilities/(assets) | 1,935 | (687) | (2,178) | (3,026) |
| Settled/(recoverable) within 12 months | - | (747) | - | (747) |
| Settled/(recoverable) after 12 months | 1,935 | 60 | (2,178) | (2,279) |
| | 1,935 | (687) | (2,178) | (3,026) |

Company No.

| 731996 | H |
|---|---|

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | General Takaful Fund RM'000 | Company RM'000 |
|---|---|---|---|---|
| At 1 January 2016 | 4,762 | 423 | (2,334) | (1,137) |
| Charged/(credited) to profit or loss (Note 23): | | | | |
| FVTPL investments | - | (1,148) | - | (1,148) |
| Property and equipment | (1,036) | - | - | (1,036) |
| Allowance for impairment loss | - | - | 140 | 140 |
| Expense liabilities | (114) | - | - | (114) |
| Qardhul Hassan | (1,755) | - | - | 137 |
| | (2,905) | (1,148) | 140 | (2,021) |
| Credited to other comprehensive income: | | | | |
| AFS investments | 78 | - | - | 78 |
| Credited to Takaful contract liabilities: | | | | |
| AFS investments (Note 10(a), (b)(iii)) | - | 38 | 16 | 54 |
| At 31 December 2016/1 January 2017 | 1,935 | (687) | (2,178) | (3,026) |
| Charged/(credited) to profit or loss (Note 23): | | | | |
| FVTPL investments | - | 2,650 | - | 2,650 |
| Property and equipment | (573) | - | - | (573) |
| Allowance for impairment loss | - | - | (310) | (310) |
| Expense liabilities | 70 | - | - | 70 |
| Qardhul Hassan | (2,096) | - | - | - |
| | (2,599) | 2,650 | (310) | 1,837 |
| Credited to Takaful contract liabilities: | | | | |
| AFS investments (Note 10(a), (b)(iii)) | - | (60) | 54 | (6) |
| | (664) | 1,903 | (2,434) | (1,195) |
| Transfer to assets / liabilities of a disposal group classified as held-for-sale (Note 14(a)) | - | - | 2,434 | 2,434 |
| At 31 December 2017 | (664) | 1,903 | - | 1,239 |

13 DEFERRED TAXATION (CONTINUED)

The composition of deferred tax (assets)/liabilities before and after appropriate offsetting, is as follows:

| | Takaful Operator | Family Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| 2017 | | | |
| Subject to income tax: | | | |
| Deferred tax assets (before offsetting) | | | |
| - Allowance for impairment loss | - | - | - |
| - FVPTL investments | (15) | - | (15) |
| - AFS investments | - | - | - |
| - Expense liabilities | (881) | - | (881) |
| | (896) | - | (896) |
| Offsetting | 232 | - | 232 |
| Deferred tax assets (after offsetting) | (664) | - | (664) |
| Deferred tax liabilities (before offsetting) | | | |
| - Property and equipment | 232 | - | 232 |
| - Qardhul Hassan | - | - | - |
| - FVPTL investments | - | 1,903 | 1,903 |
| - AFS investments | - | - | - |
| | 232 | 1,903 | 2,135 |
| Offsetting | (232) | - | (232) |
| Deferred tax liabilities (after offsetting) | - | 1,903 | 1,903 |

2016

| | Takaful Operator | Family Takaful Fund | Company | General Takaful Fund |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Subject to income tax: | | | | |
| Deferred tax assets (before offsetting) | | | | |
| - Allowance for impairment loss | - | (2,123) | - | (2,123) |
| - FVPTL investments | - | - | (747) | (747) |
| - AFS investments | (1) | (55) | - | (56) |
| - Expense liabilities | (952) | - | - | (952) |
| | (953) | (2,178) | (747) | (3,878) |
| Offsetting | 953 | - | 60 | 852 |
| Deferred tax assets (after offsetting) | - | (2,178) | (687) | (3,026) |
| Deferred tax liabilities (before offsetting) | | | | |
| - Property and equipment | 792 | - | - | 792 |
| - Qardhul Hassan | 2,096 | - | - | - |
| - FVPTL investments | - | - | - | - |
| - AFS investments | - | - | 60 | 60 |
| | 2,888 | - | 60 | 852 |
| Offsetting | (953) | - | (60) | (852) |
| Deferred tax liabilities (after offsetting) | 1,935 | - | - | - |

14 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

In accordance with the requirements of Islamic Financial Service Act 2013 ("IFSA"), a takaful operator that carries on both classes of family takaful and general takaful businesses must take steps to split the businesses under separate legal entities before 1 July 2018.

The assets and liabilities of the General Takaful business of the Company, and the assets and liabilities of the Takaful operator used to manage the General Takaful business have been presented as a disposal group classified as held-for-sale following the approval by the Directors to dispose the business to another legal entity as required by the IFSA. Approval from BNM has been obtained, and the disposal is expected to be carried out before 1 July 2018.

Accordingly, the statement of financial position, statement of profit or loss, statement of comprehensive income and statement of cash flows of the General Takaful Fund and General Takaful Operator Fund have been classified as a disposal group or discontinued operations.

Asset and liabilities of a disposal group classified as held-for-sale :

| | Note | Takaful Operator | General Takaful Fund |
|---|---|---|---|
| | | RM'000 | RM'000 |
| **ASSETS** | | | |
| Property and equipment | 4 | 370 | - |
| Intangible assets | 5 | 1,887 | - |
| Investments: | | | |
| Loans and receivables | 14(a)(i) | 74,184 | 321 |
| Available-for-sale | 14(a)(ii) | - | 159,692 |
| Takaful receivables | 14(b) | - | 45,916 |
| Retakaful assets | 14(c) | - | 188,794 |
| Other receivables | 14(d) | 234 | 11 |
| Current tax assets | | 703 | - |
| Deferred tax assets | 14(g) | - | 2,434 |
| Cash and bank balances | | 2,020 | 38,627 |
| **TOTAL ASSETS** | | 79,398 | 435,795 |
| **LIABILITIES** | | | |
| Takaful contract liabilities | 10(b) | - | 390,834 |
| Takaful payables | 14(e) | - | 30,381 |
| Other payables | 14(f) | 11,734 | 15,786 |
| Expense liabilities | | 3,669 | - |
| Current tax liabilities | | - | 2,314 |
| Deferred tax liabilities | 14(g) | - | - |
| Subordinated obligation | 14(h) | 73,000 | - |
| **TOTAL LIABILITIES** | | 88,403 | 439,315 |
| Inter-fund balances | | (2,968) | 3,520 |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

14 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(a) INVESTMENTS

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Malaysian Government Securities / Government Investment Issues | - | 2,029 | 2,029 |
| Islamic debt securities, unquoted | - | 157,663 | 157,663 |
| Deposits with financial institutions | 74,184 | 321 | 74,505 |
| | 74,184 | 160,013 | 234,197 |

The Company's investments are summarised by measurement categories as follows:

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Loans and receivables ("LAR") | 74,184 | 321 | 74,505 |
| Available-for-sale ("AFS") | - | 159,692 | 159,692 |
| | 74,184 | 160,013 | 234,197 |
| The following investments mature after 12 months: | | | |
| AFS | - | 136,569 | 136,569 |

(i) LAR investments

At 31 December 2017

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Amortised cost: | | | |
| Fixed and call deposits with licensed financial institutions | 74,184 | 321 | 74,505 |

As at 31 December 2017, the cash and cash equivalents in the LAR of RM74,184,000 (2016: RM16,068,000) have a maturity period of three to twelve months.

14 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(a) INVESTMENTS (CONTINUED)

(ii) AFS investments

At 31 December 2017

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Fair value: | | | |
| Malaysian Government Securities | | | |
| Government Investment Issues | - | 2,029 | 2,029 |
| Islamic debt-securities, unquoted | - | 157,663 | 157,663 |
| | - | 159,692 | 159,692 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| AFS investments | | | | |
| Islamic debt securities, unquoted | - | 159,692 | - | 159,692 |

(b) TAKAFUL RECEIVABLES

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Due contributions including agents/brokers and co-insurers | - | 27,559 | 27,559 |
| Due from retakaful and cedants | - | 28,500 | 28,500 |
| | - | 56,059 | 56,059 |
| Allowance for impairment loss | - | (10,143) | (10,143) |
| | - | 45,916 | 45,916 |
| Receivable within 12 months | - | 45,916 | 45,916 |
| Offsetting financial assets and financial liabilities | | | |
| Gross amounts of recognised financial assets | | 45,916 | 45,916 |
| Less: | | | |
| Gross amounts of recognised financial liabilities set off in the statement of financial position | - | - | - |
| Net amounts of financial assets presented in the statement of financial position | - | 45,916 | 45,916 |

14 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(c) RETAKAFUL ASSETS

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Retakaful of Takaful contracts (Note 10) | | | |
| - General Takaful Fund | - | 188,794 | 188,794 |

(d) OTHER RECEIVABLES

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Staff financing | - | - | - |
| Other receivables, deposits and Prepayments | 234 | 11 | 245 |
| | 234 | 11 | 245 |
| Inter-fund balances | | | |
| Amount due from General Takaful fund | - | - | - |
| Certificate fees receivable from Family Takaful fund | - | - | - |
| Tharawat fees receivable from Family Takaful fund | - | - | - |
| Amount due from Takaful Operator | - | 8,354 | 8,354 |
| Amount due from from Family Takaful fund | - | - | - |
| Surplus receivable from General Takaful fund | 4,835 | - | 4,835 |
| Total other receivables | 5,069 | 8,365 | 13,434 |
| Receivable within 12 months | 5,069 | 8,365 | 13,434 |

14 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(e) TAKAFUL PAYABLES

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Due to agents and intermediaries | - | 15,021 | 15,021 |
| Due to retakaful operators and cedants | - | 15,360 | 15,360 |
| | - | 30,381 | 30,381 |
| Payable within 12 months | - | 30,381 | 30,381 |
| Offsetting financial assets and financial liabilities | | | |
| Gross amounts of recognised financial liabilities | - | 30,381 | 30,381 |
| Less: | | | |
| Gross amounts of recognised financial assets set off in the statement of financial position | - | - | - |
| Net amounts of financial liabilities presented in the statement of financial position | - | 30,381 | 30,381 |

(f) OTHER PAYABLES

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Amount due to a related company | 1,350 | - | 1,350 |
| Commission payable | - | - | - |
| Deposits contribution | - | 538 | 538 |
| Accruals for staff costs | 1,356 | - | 1,356 |
| Cash collaterals on performance bond | - | 6,472 | 6,472 |
| Other payables and accruals | 9,027 | 8,776 | 17,803 |
| | 11,733 | 15,786 | 27,519 |
| Inter-fund balances : | | | |
| Amount due to Takaful Operator | - | - | - |
| Certificates fees payable to Takaful Operator | - | - | - |
| Tharawat fees payable to Takaful Operator | - | - | - |
| Surplus payable to Takaful Operator | - | 4,835 | - |
| Amount due to Family Takaful Operator | - | - | - |
| Amount due from General Takaful Fund | 7,803 | - | - |
| | 7,803 | 4,835 | - |
| Total other payables | 19,536 | 20,621 | 27,519 |
| Payable within 12 months | 19,536 | 20,621 | 27,519 |

14 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

(g) DEFERRED TAXATION

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

At 31 December 2017

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Deferred tax liabilities/(assets) | - | (2,434) | (2,434) |
| Settled/(recoverable) within 12 months | - | - | - |
| Settled/(recoverable) after 12 months | - | (2,434) | (2,434) |
| | - | (2,434) | (2,434) |

The composition of deferred tax (assets)/liabilities before and after appropriate offsetting, is as follows:

| | Takaful Operator | General Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| 2017 | | | |
| Subject to income tax: | | | |
| Deferred tax assets (before offsetting) | | | |
| - Allowance for impairment loss | - | (2,434) | (2,434) |
| - FVPTL investments | - | - | - |
| - AFS investments | - | - | - |
| - Expense liabilities | - | - | - |
| | - | (2,434) | (2,434) |
| Offsetting | - | - | - |
| Deferred tax assets (after offsetting) | - | (2,434) | (2,434) |

(h) SUBORDINATED OBLIGATION

| | 2017 |
|---|---|
| | RM'000 |
| Subordinated obligation | 73,000 |

On 29 June 2017, the Company received a subordinated obligation in the form of Mudharabah Financing of RM73,000,000 for a tenure of 5 years from Zurich Holdings Malaysia Berhad ("ZHMB"), a related party. Any profit arising from investments placed using this financing less agreed expenses will be shared between ZHMB and the Company based on a ratio of 60:40. The Company may redeem the subordinated obligation, subject to prior consent from Bank Negara Malaysia ("BNM).

## 15 SHARE CAPITAL

The new Companies Act 2016 (the Act) which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | No. of Shares | Share Capital | No. of Shares | Share Capital |
| | '000 | RM'000 | '000 | RM'000 |
| Authorised ordinary shares of RM1 each: | | | | |
| At beginning of the financial year | | | 150,000 | 150,000 |
| Authorised during the financial year | | | 350,000 | 350,000 |
| At end of the financial year | | | 500,000 | 500,000 |
| Issued and fully paid ordinary shares: | | | | |
| At beginning of the financial year | 160,000 | 160,000 | 100,000 | 100,000 |
| Issued during the financial year | 30,000 | 30,000 | 60,000 | 60,000 |
| At end of the financial year | 190,000 | 190,000 | 160,000 | 160,000 |

On 31 March 2017, the Company issued 30,000,000 new ordinary shares for cash. The new ordinary shares issued during the financial year rank pari passu in all respect with the existing ordinary shares of the Company.

## 16 RESERVES

(a) Retained earnings

The retained earnings represent the amount available for dividend distribution to the equity shareholders of the Company.

Pursuant to the single tier system, any dividends by the Company from the distributable retained earnings will be exempted from tax in the hand of shareholders. The Company shall not be required to deduct tax on dividend paid, credited or distributed to shareholders.

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 60(1) of the Islamic Financial Services Act, 2013 ("IFSA"), the Company is required to obtain Bank Negara Malaysia's ("BNM") written approval prior to declaring or paying any dividend. Pursuant to the Risk- Based Capital Framework for Takaful Operators, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

(b) Available-for-sale reserve

The available-for-sale reserve in the Company-level financial statements represents the fair value gains or losses from available-for-sale investments, net of deffered tax, of the Takaful Operator.

17 NET EARNED CONTRIBUTION

Continuing Operations

(a) Family Takaful Fund

| | | 2017 | 2016 |
|---|---|---|---|
| | | RM'000 | RM'000 |
| (i) | Gross earned contributions | | |
| | Takaful contracts (Note 10(a)) | 277,687 | 276,422 |
| (ii) | Contribution ceded to retakaful operators | | |
| | Takaful contracts (Note 10(a)) | (20,051) | (15,551) |
| | Net earned contributions | 257,636 | 260,871 |

Discontinued Operations

(b) General Takaful Fund

| | | 2017 | 2016 |
|---|---|---|---|
| (i) | Gross earned contributions | | |
| | Takaful contracts (Note 10(b)(ii)) | 281,280 | 266,476 |
| | Change in unearned contribution reserves | 2,305 | 6,678 |
| | | 283,585 | 273,154 |
| (ii) | Contribution ceded to retakaful operators | | |
| | Takaful contracts (Note 10(b)(ii)) | (98,456) | (155,982) |
| | Change in unearned contribution reserves | (36,639) | (11,203) |
| | | (135,095) | (167,185) |
| | Net earned contributions | 148,490 | 105,969 |

## 18 INVESTMENT INCOME

Continuing Operations

| (a) Takaful Operator | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| FVTPL investments: | | |
| - Dividend income | - | - |
| AFS investments: | | |
| - Hibah/profit income | 3,182 | 346 |
| - Amortisation of premiums - net (Note 6(e)(i)) | (279) | (2) |
| LAR: | | |
| - Hibah/profit income | 3,389 | 3,706 |
| | 6,292 | 4,050 |

| (b) Family Takaful Fund | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| FVTPL investments: | | |
| - Hibah/profit income | 3,454 | 2,911 |
| - Dividend income | 12,954 | 2,017 |
| - (Amortisation of premiums)/accretion of discounts - (Note 6(e)(iii)) | - | (39) |
| AFS investments: | | |
| - Hibah/profit income | 3,354 | 3,439 |
| - Amortisation of premiums - net (Note 6(e)(iii)) | (59) | (73) |
| LAR: | | |
| - Hibah/profit income | 730 | 1,644 |
| | 20,433 | 9,899 |

| (c) Company | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| FVTPL investments: | | |
| - Hibah/profit income | 3,454 | 2,911 |
| - Dividend income | 12,954 | 2,017 |
| - (Amortisation of premiums)/accretion of discounts - net | - | (39) |
| AFS investments: | | |
| - Hibah/profit income | 6,536 | 6,608 |
| - Amortisation of premiums - net | (338) | (186) |
| LAR: | | |
| - Hibah/profit income | 4,119 | 9,059 |
| | 26,725 | 20,370 |

Discontinued Operations

| (d) General Takaful Fund | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| AFS investments: | | |
| - Hibah/profit income | 4,749 | 2,823 |
| - Amortisation of premiums - net (Note 6(e)(ii)) | (332) | (111) |
| LAR: | | |
| - Hibah/profit income | 2,838 | 3,709 |
| | 7,255 | 6,421 |

Company No.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

## 19 REALISED GAINS/(LOSSES)

Continuing Operations

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| (a) Takaful Operator | | |
| AFS investments: | | |
| Islamic debt securities | - | (215) |
| FVTPL investments: | | |
| Equity securities | - | - |
| Loss on disposal of property and equipment | - | (9) |
| | - | (224) |
| (b) Family Takaful Fund | | |
| AFS investments: | | |
| Islamic debt securities | - | - |
| FVTPL investments: | | |
| Islamic debt securities | 222 | - |
| Equity securities | 4,815 | 1,512 |
| | 5,037 | 1,512 |

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| (c) Company | | |
| AFS investments: | | |
| Islamic debt securities | - | (172) |
| FVTPL investments: | | |
| Islamic debt securities | 222 | |
| Equity securities | 4,815 | 1,512 |
| Loss on disposal of property and equipment | - | (9) |
| | 5,037 | 1,331 |
| Discontinued Operations | | |
| (d) General Takaful Fund | | |
| AFS investments: | | |
| Islamic debt securities | 216 | 43 |

## 20 FAIR VALUE GAINS/(LOSSES)

| Continuing Operations | 2017 | 2016 |
|---|---|---|
| | RM'000 | RM'000 |
| FVTPL investments: | | |
| Takaful Operator (Note 6(e)(i)) | 245 | 70 |
| Family Takaful Fund (Note 6(e)(iii) | 20,401 | (14,351) |
| Company (Note 6(e)(iv) | 20,646 | (14,281) |

## 21 NET CLAIMS

| | | Continuing Operations | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | RM'000 | RM'000 |
| (a) Family Takaful Fund | | | |
| (i) | Gross benefits and claims paid (Note 10(a)) | (139,700) | (140,998) |
| (ii) | Claims ceded to retakaful operators (Note 10(a)) | 18,630 | 14,345 |
| (iii) | Gross change in contract liabilities | (67,508) | (23,955) |
| (iv) | Change in contract liabilities ceded to retakaful operators | 276 | 2,506 |
| | Net claims | (188,303) | (148,102) |

| | | Discontinued Operations | |
|---|---|---|---|
| | | 2017 | 2016 |
| | | RM'000 | RM'000 |
| (b) General Takaful Fund | | | |
| (i) | Gross benefits and claims paid (Note 10(b)(i)) | (153,659) | (126,689) |
| (ii) | Claims ceded to retakaful operators (Note 10(b)(i)) | 91,462 | 73,929 |
| (iii) | Gross change in contract liabilities | 18,216 | (44,219) |
| (iv) | Change in contract liabilities ceded to retakaful operators | (42,227) | 20,878 |
| | Net claims | (86,208) | (76,101) |

22 (a) MANAGEMENT EXPENSES

| 2017<br>Takaful Operator | Continuing Operations | Discontinued Operations |
|---|---|---|
| | RM'000 | RM'000 |
| Staff salaries and bonus | 14,310 | 10,319 |
| Defined contribution plan | 1,947 | 1,077 |
| Other staff costs | 2,613 | 1,348 |
| | 18,870 | 12,744 |
| Auditors' remuneration: | | |
| - Statutory audit | 302 | 301 |
| - Others | 18 | 17 |
| Non-Executive Directors' remuneration: | | |
| - fees | 205 | 161 |
| - other emoluments | 65 | 65 |
| Shariah Committee remuneration: | | |
| - fees | 69 | 64 |
| - other emoluments | 27 | 24 |
| Depreciation charge on property and equipment | 3,517 | 703 |
| Amortisation of intangible assets | 823 | 448 |
| Office rental | 2,150 | 875 |
| Printing and stationery | 1,313 | 1,559 |
| Advertising and promotions | 933 | 13,093 |
| Postage and telephone | 615 | 305 |
| Professional fees | 2,649 | 404 |
| Agency training | 680 | 161 |
| Data processing | 2,332 | 4,813 |
| Repairs and maintenance | 1,040 | 709 |
| Motor vehicle expenses | 391 | 315 |
| Electricity charges | 466 | 230 |
| Bank and credit card charges | 1,677 | 1,257 |
| Shared service costs paid and payable to a related party | 4,889 | 16,594 |
| Other expenses | 10,130 | 3,611 |
| | 53,161 | 58,453 |

22 (a) MANAGEMENT EXPENSES (CONTINUED)

| 2016<br>Takaful Operator | Continuing Operations | Discontinued Operations |
|---|---|---|
| | RM'000 | RM'000 |
| Staff salaries and bonus | 14,624 | 20,842 |
| Defined contribution plan | 2,318 | 3,188 |
| Other staff costs | 623 | 632 |
| | 17,565 | 24,662 |
| Auditors' remuneration: | | |
| - Statutory audit | 307 | 306 |
| - Audit related services | 19 | 18 |
| Non-Executive Directors' remuneration: | | |
| - fees | 173 | 172 |
| - other emoluments | 65 | 64 |
| Shariah Committee remuneration: | | |
| - fees | 72 | 72 |
| - other emoluments | 23 | 23 |
| Depreciation charge on property and equipment | 1,406 | 1,021 |
| Amortisation of intangible assets | 1,278 | 917 |
| Office rental | 1,405 | 1,405 |
| Printing and stationery | 1,167 | 1,167 |
| Advertising and promotions | 2,727 | 2,727 |
| Postage and telephone | 492 | 493 |
| Professional fees | 1,474 | 1,475 |
| Agency training | 1,582 | 1,583 |
| Data processing | 2,241 | 1,567 |
| Repairs and maintenance | 1,117 | 453 |
| Motor vehicle expenses | 402 | 651 |
| Electricity charges | 524 | 205 |
| Bank and credit card charges | 1,512 | 1,331 |
| Other expenses | 6,416 | 11,697 |
| | 41,967 | 52,009 |

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer ("CEO") of the Company during the financial year, as included in staff salaries and bonus, amounted to RM1,239,000. (2016: RM1,212,000).

Included in staff costs are the remuneration for key management personnel, which is disclosed in Note 25 to the financial statements.

22 (a) MANAGEMENT EXPENSES (CONTINUED)

The number of Executive and Non-Executive Directors whose total remuneration received or receivable during the financial year are analysed by the following bands:

| | Number of Directors | |
|---|---|---|
| | **2017** | **2016** |
| Non-Executive Directors: | | |
| RM10,000 – RM100,000 | 6 | 7 |
| RM100,001 – RM200,000 | 1 | 1 |

The Executive Director did not receive any remuneration for the current financial year.

The Directors of the Company in office during the financial year were as follows:

i) Tan Sri Ahmad bin Mohd Don
ii) Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim
iii) Assoc. Prof. Dr. Md Khalil bin Ruslan
iv) Onn Kien Hoe
v) Philip Wallace Smith
vi) Choy Khai Choon
vii) Hasnah binti Omar

(b) QARDHUL HASSAN IMPAIRMENT

Qardhul Hassan impairment represents the difference between the carrying amount of Qardhul Hassan receivable and its projected recoverable amount. As at 31 December 2017, the Company has made an assessment of the Qardhul Hassan recoverable based on the projection of surplus or deficit of the Ordinary Family Takaful risk fund for the next 5 years, taking into consideration of the risk fund balance less the best estimates of net liabilities under certificates. Based on the projected deficit of the Ordinary Family Takaful risk fund, the Company has made full provision for impairment of RM17,651,000 on the balance of Qardhul Hassan recoverable from Family Takaful Fund.

(c) OTHER OPERATING EXPENSE

| | Takaful Operator | Family Takaful Fund | Company |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| At 31 December 2017 | | | |
| Withdrawal of risk fund surplus | - | 12,998 | 12,998 |
| Other operating expense | 101 | 2,723 | 2,824 |
| | 101 | 15,721 | 15,822 |
| At 31 December 2016 | | | |
| Other operating expense | 2,844 | - | 2,844 |

The withdrawal of risk fund surplus of RM12,998,000 for 2017 relates to prior year surplus paid to unitholders via creation of new units in the investment-linked funds.

## 23 TAXATION

| | Continuing Operations | | |
|---|---|---|---|
| | Takaful Operator | Family Takaful Fund | Company |
| | RM'000 | RM'000 | RM'000 |
| 2017 | | | |
| Current tax: | | | |
| Current financial year | 3,409 | 1,068 | 4,477 |
| Under/(over)-provision in prior financial year | 1,678 | (1,088) | 589 |
| | 5,087 | (20) | 5,066 |
| Deferred tax (Note 13) | (2,599) | 2,650 | 2,148 |
| Tax expense/(income) | 2,488 | 2,630 | 7,214 |

| | Discontinued Operations | | |
|---|---|---|---|
| | Takaful Operator | General Takaful Fund | Company |
| | RM'000 | RM'000 | RM'000 |
| Current tax: | | | |
| Current financial year | 13 | 2,950 | 2,963 |
| Under/(over)-provision in prior financial year | 2,072 | (560) | 1,512 |
| | 2,085 | 2,390 | 4,475 |
| Deferred tax (Note 13) | - | (310) | (310) |
| Tax expense/(income) | 2,085 | 2,080 | 4,165 |

| | | Continuing Operations | | |
|---|---|---|---|---|
| | Takaful Operator | General Takaful Fund | Family Takaful Fund | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2016 | | | | |
| Current tax: | | | | |
| Current financial year | 5,846 | 2,947 | 1,296 | 10,089 |
| Under/(over)-provision in prior financial year | 3,683 | 81 | (188) | 3,576 |
| | 9,529 | 3,028 | 1,108 | 13,665 |
| Deferred tax (Note 13) | (2,905) | 140 | (1,148) | (2,021) |
| Tax expense | 6,624 | 3,168 | (40) | 11,644 |

23 TAXATION (CONTINUED)

The numerical reconciliation between statutory tax rate and the effective tax rate of the Company is as follows:

| | 2017 | 2016 |
|---|---|---|
| | RM'000 | RM'000 |
| (Loss)/profit before taxation attributable to Takaful Operator | (12,245) | 2,085 |
| Taxation at Malaysia statutory tax rate of 24% | (2,939) | 500 |
| Expenses not deductible for tax purposes | 6,728 | 4,521 |
| Tax expense attributable to participants | 2,630 | (40) |
| Previously unrecognised deductible temporary differences | - | - |
| Under/(over)-provision in prior financial year | 795 | 3,495 |
| Total tax expenses | 7,214 | 8,476 |

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

24 CASH FLOWS

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Net loss for the financial year | (23,857) | (13,724) |
| Adjustment for: | | |
| Investment income | (33,980) | (20,370) |
| Realised gains from disposal of FVTPL and AFS investments | (4,821) | (1,340) |
| Fair value losses/(gains) | (20,646) | 14,281 |
| Purchase of FVTPL investments | (209,658) | (163,996) |
| Proceeds from sale of FVTPL investments | 152,554 | 156,787 |
| Purchase of AFS investments | (281,353) | - |
| Proceeds from sale and maturity of AFS investments | 14,801 | 30,027 |
| Non-cash items: | | |
| Depreciation of property and equipment | 4,220 | 2,427 |
| Write-offs of property and equipment | 4 | 87 |
| Loss on disposal of property and equipment | 163 | 9 |
| Amortisation of intangible assets | 1,271 | 2,195 |
| Write-offs of intangible assets | 297 | 1,071 |
| (Write-back)/allowance for impairment loss | 2,243 | (793) |
| Tax expense attributable to Takaful Operator | 7,869 | 8,516 |
| Tax expense attributable to participants | 4,711 | 3,128 |
| Changes in working capital: | | |
| Decrease / (increase) in loans and receivables | 235,592 | (111,759) |
| Decrease / (increase) in retakaful assets | 78,303 | (12,225) |
| (Increase) / decrease in Takaful receivables | (18,924) | 49,381 |
| Decrease in other receivables | 20,012 | 2,311 |
| Increase in Takaful contract liabilities | 42,472 | 59,221 |
| Decrease in Takaful payables | (6,670) | (49,179) |
| (Decrease) / increase in other payables | (2,216) | 15,498 |
| Increase/(decrease) in expense liabilities | (1,904) | 4,082 |
| Cash used in operating activities | (39,157) | (24,365) |

## 25 SIGNIFICANT RELATED PARTY DISCLOSURE

Related parties and relationship

The related parties of, and their relationship with the Company, are as follows:

| Related Companies | Relationship |
|---|---|
| Zurich Insurance Group Ltd. ("ZIGL") | Ultimate holding company |
| Zurich Life Insurance Malaysia Berhad ("ZLIMB") | Subsidiary of ultimate holding company |
| Zurich Holding Malaysia Berhad | Subsidiary of ultimate holding company |
| Zurich Services Malaysia Sdn Bhd | Subsidiary of ultimate holding company |
| MAA Group Berhad* | Former ultimate holding company |
| MAA Corporation Sdn Bhd* | Former subsidiary of ultimate holding company |
| Trace Management Services Sdn Bhd* | Former company controlled by a person connected to a Director of MAA Group Berhad |

*ceased to be related parties on 30 June 2016

Significant related party transactions

The significant related party transactions during the financial year with former related parties, are as follows:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Transactions with MAA Group Berhad: | | |
| Management service fees | - | (54) |
| Infrastructure costs recovery | - | 145 |
| Transactions with MAA Corporation Sdn Bhd: | | |
| Office rental expenses | - | (27) |
| Property maintenance service | - | (48) |
| Internal security service | - | (60) |
| Transactions with Trace Management Services Sdn Bhd | | |
| - Company secretarial and professional fees | - | (106) |
| - Office rental income | - | 55 |
| - Office cleaning services | - | 1 |
| - Electricity charges | - | 14 |
| Transactions with Zurich Life Insurance Malaysia Bhd | | |
| - Integration and outsourcing costs | (28,303) | (2,373) |
| - Payroll services fee | (37) | (15) |
| - Property maintenance fee | (30) | (12) |
| Transactions with Zurich Services Malaysia Sdn Bhd | | |
| - IT services fee | (442) | - |
| - Integration costs | (110) | - |

The transactions held with the Company's former related parties relate to that incurred up to 30 June 2016.

25 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

Related party balances

Included in the statement of financial position of the Company are significant related party balances as shown below:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Zurich Life Insurance Malaysia Berhad | | |
| Payroll Service Fees | - | 15 |
| Property Maintenance Service | - | 12 |
| Integration and outsourcing cost | 4,827 | 2,373 |
| Reimbursement of staff medical and insurance | 17 | - |
| Reimbursement of brochure printing | 28 | - |
| Reimbursement of renovation at branch | 747 | - |
| | 5,619 | 2,400 |

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Zurich Holding Malaysia Berhad | | |
| Mudharabah financing | 73,000 | - |
| | 73,000 | - |

These related party balances are current, unsecured, non profit-bearing and payable within 12 months.

Key management personnel

Key management personnel received remuneration for services rendered during the financial year. The key management personnel of the Company comprised the Chief Executive Officer ("CEO"). The total compensation paid to the Company's key management personnel are as follows:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Salaries and bonus | 1,239 | 1,054 |
| Defined contribution plan | 198 | 122 |
| Benefits-in-kind | 20 | 36 |
| | 1,457 | 1,212 |

There were no outstanding balances due from key management personnel.

26 CAPITAL AND OTHER COMMITMENTS

Capital expenditure and other commitments not provided for in the financial statements are as follows:

| | 2017 RM'000 | 2016 RM'000 |
|---|---|---|
| Authorised and contracted for: | | |
| - Office rental | 1,717 | 2,207 |
| - Office renovation | - | 20 |
| - Leasing of copier | 240 | - |
| | 1,957 | 2,227 |

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

27 TAKAFUL FUNDS

The Company's activities are organised by funds and segregated into the Family Takaful, General Takaful and Takaful Operator, in accordance with the Islamic Financial Services Act, 2013. The Company's statement of financial position and statement of profit or loss have been further analysed by funds.

The Family Takaful business offers primary investment-linked products as well as group medical covers. The General Takaful business offers all General Takaful products, which include motor, fire, marine, aviation and transit ("MAT"), and miscellaneous products.

As disclosed in Note 14, the disposal of the Company's General Takaful business is expected to be completed in 2018. Accordingly, the statement of financial position, statement of profit or loss and the information as cash flow of the General Takaful Fund and General Takaful Operator Fund has been classified as a disposal group or discontinued operation.

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2017

| | | Continuing Operations | | |
|---|---|---|---|---|
| | Takaful Operator | Family Takaful Fund | Investment-linked Fund | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Assets: | | | | |
| Property and equipment | 4,039 | - | - | 4,039 |
| Intangible assets | 1,949 | - | - | 1,949 |
| Investments | 169,381 | 67,909 | 429,529 | 663,774 |
| Takaful receivable | - | 3,217 | - | 3,217 |
| Qardhul Hassan receivable | - | - | - | - |
| Retakaful assets | - | 15,535 | - | 15,535 |
| Other receivables | 1,488 | 19 | 19 | 1,526 |
| Current tax assets | - | 1,178 | 22 | 1,200 |
| Deferred tax assets | 664 | - | - | 664 |
| Cash and bank balances | 16,019 | 65,345 | 12,924 | 94,288 |
| Total assets | 193,540 | 153,203 | 442,494 | 786,192 |
| Equity, participants' fund and liabilities: | | | | |
| Total equity | 162,793 | (17,651) | - | 162,793 |
| Takaful contract liabilities | - | 120,692 | 440,868 | 558,515 |
| Takaful payables | - | 3,494 | - | 3,494 |
| Qardhul Hassan payable | - | 17,651 | - | - |
| Other payables | 31,526 | 11,647 | - | 43,173 |
| Expense liabilities | 2,001 | - | - | 2,001 |
| Current tax liabilities | 1,035 | - | 753 | 1,788 |
| Deferred tax liabilities | - | - | 1,903 | 1,903 |
| Total liabilities | 34,562 | 153,484 | 443,524 | 610,874 |
| Total equity, participants' fund and liabilities | 197,355 | 135,833 | 443,524 | 773,667 |
| Inter-fund balances | 15,788 | (17,370) | 1,030 | (552) |
| Total equity related to a disposal group classified as held-for-sale | (11,973) | - | - | (11,973) |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

27 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2017

| | Discontinued Operations | | |
|---|---|---|---|
| | Takaful Operator | General Takaful Fund | Company |
| | RM'000 | RM'000 | RM'000 |
| Assets: | | | |
| Property and equipment | 370 | - | 370 |
| Intangible assets | 1,887 | - | 1,887 |
| Investments | 74,184 | 160,013 | 234,197 |
| Takaful receivables | - | 45,916 | 45,916 |
| Qardhul Hassan receivable | - | - | - |
| Retakaful assets | - | 188,794 | 188,794 |
| Other receivables | 234 | 11 | 245 |
| Current tax assets | 703 | - | 703 |
| Deferred tax assets | - | 2,434 | 2,434 |
| Cash and bank balances | 2,020 | 38,627 | 40,647 |
| Total assets | 79,398 | 435,795 | 515,194 |
| Equity, participants' fund and liabilities: | | | |
| Total equity * | - | - | - |
| Takaful contract liabilities | - | 390,834 | 390,834 |
| Takaful payables | - | 30,381 | 30,381 |
| Qardhul Hassan payable | - | - | - |
| Other payables | 11,734 | 15,786 | 27,520 |
| Expense liabilities | 3,669 | - | 3,669 |
| Current tax liabilities | - | 2,314 | 2,313 |
| Deferred tax liabilities | - | - | - |
| Subordinated obligation | 73,000 | - | 73,000 |
| Total liabilities | 88,403 | 439,315 | 527,717 |
| Total equity, participants' fund and liabilities | 88,403 | 439,315 | 527,717 |
| Inter-fund balances | (2,968) | 3,520 | 552 |
| Total equity | 11,973 | - | 11,973 |

27 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2016

| | Takaful Operator RM'000 | General Takaful Fund RM'000 | Family Takaful Fund RM'000 | Investment-linked Fund RM'000 | Company RM'000 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Property and equipment | 8,796 | - | - | - | 8,796 |
| Intangible assets | 3,260 | - | - | - | 3,260 |
| Investments | 164,656 | 177,216 | 95,622 | 347,214 | 781,908 |
| Takaful receivables | - | 29,275 | 3,178 | - | 32,453 |
| Qardhul Hassan receivable | 8,734 | - | - | - | - |
| Retakaful assets | - | 267,684 | 14,949 | - | 282,633 |
| Other receivables | 5,474 | 1,032 | 1,154 | 60 | 7,720 |
| Current tax assets | 3,018 | - | - | - | 3,018 |
| Deferred tax assets | - | 2,178 | (60) | 747 | 3,026 |
| Cash and bank balances | 2,706 | 1,455 | 32,546 | 18,972 | 55,679 |
| Total assets | 196,644 | 478,840 | 147,389 | 366,993 | 1,178,493 |
| Equity, participants' fund and liabilities: | | | | | |
| Total equity | 163,335 | - | (8,734) | - | 156,697 |
| Takaful contract liabilities | - | 415,899 | 106,848 | 386,543 | 906,490 |
| Takaful payables | - | 36,528 | 2,614 | - | 39,142 |
| Qardhul Hassan payable | - | - | 8,734 | - | - |
| Other payables | 32,812 | 17,558 | 12,935 | 808 | 64,113 |
| Expense liabilities | 7,575 | - | - | - | 7,575 |
| Current tax liabilities | - | 2,948 | 506 | 1,022 | 4,476 |
| Deferred tax liabilities | 1,935 | - | - | - | - |
| Total liabilities | 42,322 | 472,933 | 131,637 | 388,373 | 1,021,796 |
| Total equity, participants' fund and liabilities | 205,657 | 472,933 | 122,903 | 392,061 | 1,178,493 |
| Inter-fund balances | (9,013) | 5,907 | 24,486 | (21,380) | - |

27 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

| | Continuing Operations | | | | |
|---|---|---|---|---|---|
| | Takaful Operator | Family Takaful Fund | Investment linked Fund | Elimination | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Gross earned contributions | - | 206,106 | 71,581 | - | 277,687 |
| Contributions ceded to retakaful operators | - | (20,051) | - | - | (20,051) |
| Net earned contributions | - | 186,055 | 71,581 | - | 257,636 |
| Wakalah fee income | 95,729 | - | - | (95,729) | - |
| Surplus sharing from Family Takaful fund | 13,500 | - | - | (13,500) | - |
| Investment income | 6,292 | 4,161 | 16,271 | - | 26,724 |
| Realised gains/(losses) | - | - | 5,037 | - | 5,037 |
| Fair value gains/(losses) | 245 | - | 20,401 | - | 20,646 |
| Other operating income-net | 548 | 10 | 3,425 | - | 3,983 |
| Other income | 116,314 | 4,171 | 45,134 | (109,229) | 56,390 |
| Total revenue | 116,314 | 190,226 | 116,715 | (109,229) | 314,026 |
| Gross benefits and claims paid | - | (88,340) | (51,360) | - | (139,700) |
| Claims ceded to retakaful Operators | - | 18,630 | - | - | 18,630 |
| Gross change to contract Liabilities | - | (13,183) | (54,325) | 23 | (67,484) |
| Change in contract liabilities ceded to retakaful operators | - | 276 | - | - | 276 |
| Net claims | - | (82,617) | (105,685) | 23 | (188,278) |
| Surplus sharing with Takaful Operator | - | (13,500) | - | 13,500 | - |
| Wakalah fee expenses | - | (90,242) | (5,487) | 95,729 | - |
| Fee and commission expenses | (70,619) | - | - | - | (70,619) |
| Management expenses | (53,161) | - | - | - | (53,161) |
| Qardhul Hassan impairment | (17,651) | - | - | 17,651 | - |
| Other operating expenses | (101) | (12,996) | (2,723) | - | (15,822) |
| Expense liabilities | 1,609 | - | - | - | 1,609 |
| Other expenses | (139,923) | (116,738) | (8,210) | 126,880 | (137,993) |
| Zakat | - | - | - | - | - |
| Profit/(loss) before taxation | (23,609) | (9,131) | 2,820 | 17,674 | (12,245) |
| Tax (expense)/income attributable to participants | - | 190 | (2,820) | - | (2,630) |
| Profit/(loss) before taxation attributable to Takaful Operator | (23,609) | (8,941) | - | 17,674 | (14,875) |
| Taxation | (2,488) | 190 | (2,820) | (2,096) | (7,214) |
| Tax expense/(income) attributable to participants | - | (190) | 2,820 | - | 2,630 |
| Tax expense attributable to Takaful Operators | (2,488) | - | - | (2,096) | (4,584) |
| Net loss for the financial year | (26,097) | (8,941) | - | 15,578 | (19,459) |
| Net loss for the financial year from discontinued operations | (4,398) | - | - | | (4,398) |
| Net (loss)/profit for the financial year | (30,495) | (8,941) | - | 15,578 | (23,857) |

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27 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

| | Discontinued Operations | | | |
|---|---|---|---|---|
| | Takaful Operator | General Takaful Fund | Elimination | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Gross earned contributions | - | 246,946 | - | 246,946 |
| Contributions ceded to retakaful operators | - | (98,456) | - | (98,456) |
| Net earned contributions | - | 148,490 | - | 148,490 |
| Wakalah fee income | 84,194 | - | (84,194) | - |
| Surplus sharing from General Takaful fund | 4,835 | - | (4,835) | - |
| Investment income | 1,228 | 7,255 | - | 8,483 |
| Realised gains/(losses) | - | (216) | - | (216) |
| Fair value gains/(losses) | - | - | - | - |
| Fee and commission income | - | 23,787 | - | 23,787 |
| Other operating income-net | 1 | 1,053 | | 1,054 |
| Other income | 90,258 | 31,879 | (89,029) | 33,108 |
| Total revenue | 90,258 | 180,369 | (89,029) | 181,598 |
| Gross benefits and claims paid | - | (153,659) | - | (153,659) |
| Claims ceded to retakaful Operators | - | 91,462 | - | 91,462 |
| Gross change to contract Liabilities | - | 18,216 | - | 18,216 |
| Change in contract liabilities ceded to retakaful operators | - | (42,227) | - | (42,227) |
| Net claims | - | (86,208) | - | (86,208) |
| Surplus sharing with Takaful Operator | - | (4,835) | 4,835 | - |
| Wakalah fee expenses | - | (84,194) | 84,194 | - |
| Fee and commission expenses | (33,678) | - | - | (33,678) |
| Management expenses | (58,453) | - | - | (58,453) |
| Write-back of allowance for impairment | - | - | - | - |
| Other operating expenses | (735) | (3,052) | - | (3,787) |
| Expense liabilities | 295 | - | - | 295 |
| Other expenses | (92,571) | (92,081) | 89,029 | (95,623) |
| Zakat | - | - | - | - |
| Profit/(loss) before taxation | (2,313) | 2,080 | - | (233) |
| Tax (expense)/income attributable to participants | - | (2,080) | - | (2,080) |
| Profit/(loss) before taxation attributable to Takaful Operator | (2,313) | - | - | (2,313) |
| Taxation | (2,085) | (2,080) | - | (4,165) |
| Tax expense/(income) attributable to participants | - | 2,080 | - | 2,080 |
| Tax expense attributable to Takaful Operators | (2,085) | - | - | (2,085) |
| Net loss from discontinued operations for the financial year | (4,398) | - | - | (4,398) |

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

27 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Continuing Operations | | | Discontinued Operations | | | |
|---|---|---|---|---|---|---|---|
| | Takaful Operator | Family Takaful Fund | Investment-linked Fund | Takaful Operator | General Takaful Fund | Elimination | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Gross earned contributions | - | 276,422 | - | - | 273,154 | - | 549,576 |
| Contributions ceded to retakaful operators | - | (15,551) | - | - | (167,185) | - | (182,736) |
| Net earned contributions | - | 260,871 | - | - | 105,969 | - | 366,840 |
| Wakalah fee income | 90,920 | - | - | 73,684 | - | (164,604) | - |
| Surplus sharing from Family Takaful fund | 13,000 | - | - | - | - | (13,000) | - |
| Surplus sharing from General Takaful fund | - | - | - | 2,480 | - | (2,480) | - |
| Investment income | 4,050 | 4,256 | 5,643 | - | 6,421 | - | 20,370 |
| Realised gains/(losses) | (224) | - | 1,512 | - | 43 | - | 1,331 |
| Fair value gains/(losses) | 70 | - | (14,351) | - | - | - | (14,281) |
| Fee and commission income | - | - | - | - | 35,621 | - | 35,621 |
| Other operating income-net | 17 | 542 | 818 | - | 6,586 | - | 7,963 |
| Other income | 107,833 | 4,798 | (6,378) | 76,164 | 48,671 | (180,084) | 51,004 |
| Total revenue | 107,833 | 265,669 | (6,378) | 76,164 | 154,640 | (180,084) | 417,844 |
| Gross benefits and claims paid | - | (140,998) | - | - | (126,689) | - | (267,687) |
| Claims ceded to retakaful operators | - | 14,345 | - | - | 73,929 | - | 88,274 |
| Gross change to contract liabilities | - | (34,918) | 10,963 | - | (44,219) | 19 | (68,155) |
| Change in contract liabilities ceded to retakaful operators | - | 2,506 | - | - | 20,878 | - | 23,384 |
| Net claims | - | (159,065) | 10,963 | - | (76,101) | 19 | (224,184) |
| Surplus sharing with Takaful Operator | - | (13,000) | - | - | (2,480) | 15,480 | - |
| Wakalah fee expenses | - | (86,006) | (4,914) | - | (73,684) | 164,604 | - |
| Fee and commission expenses | (64,598) | - | - | (31,033) | - | - | (95,631) |
| Management expenses | (41,967) | - | - | (52,009) | - | - | (93,976) |
| Write-back of allowance for impairment | - | - | - | - | 793 | - | 793 |
| Other operating expenses | (2,844) | - | - | - | - | - | (2,844) |
| Expense liabilities | (3,608) | - | - | (474) | - | - | (4,082) |
| Other expenses | (113,017) | (99,006) | (4,914) | (83,516) | (75,371) | 180,084 | (195,740) |
| Zakat | - | - | - | - | - | - | - |
| Profit/(loss) before taxation | (5,184) | 7,598 | (329) | (7,352) | 3,168 | 19 | (2,080) |
| Tax (expense)/income attributable to participants | - | (289) | 329 | - | (3,168) | - | (3,128) |
| Profit/(loss) before taxation attributable to Takaful Operator | (5,184) | 7,309 | - | (7,352) | - | 19 | (5,208) |
| Taxation | (6,624) | (289) | 329 | - | (3,168) | (1,892) | (11,644) |
| Tax expense/(income) attributable to participants | - | 289 | (329) | - | 3,168 | - | 3,128 |
| Tax expense attributable to Takaful Operators | (6,624) | - | - | - | - | (1,892) | (8,516) |
| Net (loss)/profit for the financial year | (11,808) | 7,309 | - | (7,352) | - | (1,873) | (13,724) |

28 RISK MANAGEMENT FRAMEWORK

(a) Risk Governance

The risk governance structure within the Company aims to ensure effective management of the different types of risks while meeting the specific strategic objectives of the Company. The Company manages its obligations and pursues opportunities that involve an acceptable degree of risks, with the aim of achieving its business and operating objectives while fulfilling the expectations of all stakeholders. The Company's policy is to give consistent consideration to the balance of risks and commercial implications in order to support the achievement of stakeholder expectations.

The Company's risk governance and risk reporting requirements are incorporated in the Company's Risk Management Framework which acts as a foundation to a sound system of internal control, contributing to effective corporate governance and risk reporting requirements. The framework describes the risk management cycle of risk identification, analysis, and evaluation, treatment, monitoring and reporting. The key risks are reviewed on a regular basis and reported up the hierarchy as required.

The adoption of the framework is the responsibility of the Board with certain delegation of responsibilities to Risk Management Committee. The Company has established senior management committees which act as bilateral communication platform in discharging obligations. The committees include Risk and Control Committee, IT Steering Committee, Asset-Liability Management Investment Committee, Executive Committee and Management Committee. These committees are chaired by the Chief Executive Officer and are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

(b) Regulatory Framework

The Company is required to comply with the Islamic Financial Services Act, 2013, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policy rests with the Board. The Board exercises oversight on investments to safeguard the interests of participants and shareholders while ensuring compliance with Shariah.

The Asset-Liability Management Investment Committee plays the oversight role in the implementation of the investment policy as approved by the Board. The Committee also reviews the investment policy on a regular basis such that it remains consistent with the outlook of investment climate, product pricing and asset-liability management strategies. It is also responsible for overseeing assets allocation and ensuring that the policies and procedures that govern internal controls of investment processes are sufficient.

(c) Capital Management

The Company's capital management contingency plan is to create shareholder value, maintain a strong capital position with sufficient buffer to meet certificate holders' obligations and regulatory requirements and make strategic investments for business growth.

The minimum Capital Adequacy Ratio ("CAR") under the RBC Framework regulated by BNM is 130% for each takaful operator. The Company complied with the minimum CAR as at 31 December 2017. The regulated capital of the Company as at 31 December 2017 comprises Total Available Capital of RM246,714,000.

28 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Capital Management (continued)

| | 2017 | 2016 |
|---|---|---|
| | RM'000 | RM'000 |
| Tier 1 Capital | | |
| Paid-up capital | 190,000 | 160,000 |
| Reserves, including retained earnings | (14,354) | 3,515 |
| | 175,646 | 163,515 |
| Tier 2 Capital | | |
| Available-for-sale reserve | 1,166 | 522 |
| Long term debt | 73,000 | - |
| Less: | | |
| Deferred tax assets | (3,098) | (2,178) |
| Total Capital Available | 246,714 | 161,859 |

29 TAKAFUL RISK

The Company accepts Takaful risk through its written Takaful contracts. The Company writes Family Takaful contracts (health, group family, mortgage and investment-linked) and General Takaful contracts (motor, fire, marine, aviation and transit ("MAT"), and miscellaneous). Takaful risk is the inherent uncertainty regarding the fluctuations in the timing, frequency and severity of insured events, relative to our expectations at the time of underwriting. It can also refer to fluctuations in the timing and amount of claim settlements. The Takaful risk appetite is defined through the review of portfolio size, underwriting criteria, product limits, retakaful arrangements, underwriting authorities, claims signing authorities, delegation of authorities, pricing adequacy, aggregate risks and loss scenarios.

(a) Family Takaful

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks. Medical selection is part of the Company's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval. Products are reviewed by the Management Committee on periodic basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

29 TAKAFUL RISK

(a) Family Takaful (continued)

The table below shows the concentration of Family Takaful contract liabilities, excluding AFS fair value adjustments, by type of contract.

| | Gross<br>RM'000 | Retakaful<br>RM'000 | Net<br>RM'000 |
|---|---|---|---|
| 31 December 2017 | | | |
| Family Takaful contract liabilities: | | | |
| Endowment | 440,170 | (1,992) | 438,178 |
| Term | 106,845 | (13,569) | 93,276 |
| Total Family Takaful contract liabilities | 547,015 | (15,561) | 531,454 |
| 31 December 2016 | | | |
| Family Takaful contract liabilities: | | | |
| Endowment | 430,234 | (2,592) | 427,642 |
| Term | 62,461 | (12,357) | 50,104 |
| Total Family Takaful contract liabilities | 492,695 | (14,949) | 477,746 |

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

a) Mortality rates

Assumption is based on industry standard table – M9903.

b) Morbidity rates

Assumption is mainly based on reinsurer rates.

c) Investment return

Assumptions at 75% confidence level are 5.5% per annum for Participant Investment Account ("PIA") on Investment-linked, 4.5% per annum for PIA on Non Investment-linked and 3.6% per annum for Participant Risk Investment Account ("PRIA").

29 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Key assumptions (continued)

d) Expenses

Assumption varies by product type is as follows:-

| Product Type | RM per certificate |
|---|---|
| Investment-linked | 64 |
| Ordinary Family | 45 |
| Group Family | 13 |

e) Lapse and surrender rates

2% per annum is assumed for single contribution certificate.

For regular contribution certificates, lapse rate varies by certificate year as follows:

| | Certificate Year (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| Plan | 1 | 2 | 3 | 4 | 5 | 6 | 7+ |
| Takafulink | 20 | 15 | 13 | 12 | 10 | 10 | 10 |
| Takafulink Education | 15 | 15 | 10 | 9 | 9 | 8 | 8 |
| Takafulife Series | 15 | 20 | 10 | 10 | 10 | 8 | 8 |
| CancerCare | 20 | 45 | 30 | 5 | 5 | 5 | 5 |
| SmartMedic 200 | 15 | 45 | 40 | 25 | 25 | 25 | 25 |
| Term80 | 10 | 20 | 20 | 15 | 15 | 3.5 | 3.5 |
| Mortgage (MPP) | 2 | 2 | 2 | 2 | 2 | 2 | 2 |

f) Contribution holiday

| | Certificate Year (%) | | | | | |
|---|---|---|---|---|---|---|
| Plan | 1 | 2 | 3 | 4 | 5 | 6+ |
| Investment-Linked | 2 | 10 | 20 | 25 | 35 | 40 |
| Ordinary Life Series | 2 | 10 | 15 | 15 | 25 | 25 |

g) Discount rate

Discount rate used is the Government Investment Issue (“GII”) spot rate as at the date of statement of financial position.

29 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

| | Change in Assumptions | Impact on Family Takaful contract liabilities Gross | Net | (Loss)/profit before taxation |
|---|---|---|---|---|
| | % | RM'000 | RM'000 | RM'000 |
| 31 December 2017 | | | | |
| Mortality/ morbidity | 10% | 7,715 | 4,461 | (4,461) |
| Lapse and surrender rates | 10% | 131 | 315 | (315) |
| Discount rate | 10% | (3,324) | (2,526) | 2,526 |
| 31 December 2016 | | | | |
| Mortality/ morbidity | 10% | 6,382 | 2,999 | (2,999) |
| Lapse and surrender rates | 10% | 85 | 320 | (320) |
| Discount rate | 10% | (3,435) | (2,642) | 2,642 |

* The profits are before surplus sharing or Qardhul Hassan repayment.

There is minimal impact on the Family Takaful contract liabilities in relation to changes made to longevity and investment return assumptions.

(b) General Takaful

The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome. The underwriting strategy is set out in an annual business plan that establishes the classes of business to be written, and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, geographically and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal. The Company's Executive Committee meets periodically to review certain management information including contribution income and key ratios by class of business.

The concentration of the General Takaful contract liabilities in relation to Claim Liability by the type of Takaful contracts accepted is as summarised below:

| | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Fire | 40,325 | (34,505) | 5,820 | 41,123 | (35,732) | 5,391 |
| Motor | 140,482 | (63,620) | 76,862 | 144,503 | (81,594) | 62,909 |
| MAT | 13,120 | (12,554) | 566 | 14,617 | (13,709) | 908 |
| Miscellaneous | 71,779 | (49,079) | 22,700 | 91,417 | (70,157) | 21,260 |
| | 265,705 | (159,758) | 105,947 | 291,660 | (201,192) | 90,468 |

29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Key assumptions

The principal assumption underlying the estimation of liabilities is that the Company’s future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of the development of claims paid and the development of the value of claims reported. The methods employed also require assumptions of a prior estimate (the seed for Bornhuetter-Ferguson based methods) for each accident year. For Frequency / Severity analysis, the assumption is that the number of Claims Reported is unlikely to have been affected by any changes in the claims handling process, and thus, the link ratio techniques are appropriate in determining the ultimate number of claims. Assumptions are then required relating to the average size of claims and how they change over time. Any changes in reporting, reserving or settlement process can affect the reliability of all of the assumptions.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, an isolated occurrence, changes in market factors such as the detariffication, public's attitude to claiming, economic conditions, as well as internal factors, such as changes in the portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates.

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each date of the statement of financial position, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2017:

| Accident year | 2010 and prior RM'000 | 2011 RM'000 | 2012 RM'000 | 2013 RM'000 | 2014 RM'000 | 2015 RM'000 | 2016 RM'000 | 2017 RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| At end of accident year | 85,218 | 57,359 | 75,801 | 122,510 | 173,322 | 153,400 | 186,898 | 172,090 | |
| One year later | 83,092 | 55,296 | 73,172 | 113,516 | 150,108 | 140,108 | 167,895 | | |
| Two years later | 72,645 | 52,335 | 71,157 | 108,045 | 136,885 | 137,760 | | | |
| Three years later | 67,110 | 49,023 | 72,160 | 109,963 | 122,018 | | | | |
| Four years later | 66,342 | 49,894 | 77,392 | 108,039 | | | | | |
| Five years later | 66,118 | 50,554 | 70,867 | | | | | | |
| Six years later | 63,105 | 50,595 | | | | | | | |
| Seven years later | 61,431 | | | | | | | | |
| Current estimate of cumulative claims incurred | 61,431 | 50,595 | 70,867 | 108,039 | 122,018 | 137,760 | 167,895 | 172,090 | 890,695 |

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2017 (continued):

| | 2010 and prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accident year | | | | | | | | | |
| At end of accident year | 15,235 | 12,429 | 18,204 | 33,270 | 40,160 | 43,447 | 53,291 | 59,301 | |
| One year later | 41,075 | 34,709 | 45,537 | 67,240 | 93,627 | 90,643 | 115,463 | | |
| Two years later | 48,948 | 39,689 | 51,451 | 85,084 | 106,477 | 106,010 | | | |
| Three years later | 52,255 | 43,152 | 56,490 | 91,757 | 106,286 | | | | |
| Four years later | 54,719 | 44,206 | 62,033 | 94,874 | | | | | |
| Five years later | 55,386 | 44,868 | 66,254 | | | | | | |
| Six years later | 55,777 | 45,800 | | | | | | | |
| Seven years later | 55,984 | | | | | | | | |
| Cumulative payments to-date | 55,984 | 45,800 | 66,254 | 94,874 | 106,286 | 106,010 | 115,463 | 59,301 | 649,972 |
| Gross General Takaful contract Liabilities | 5,447 | 4,795 | 4,613 | 13,165 | 15,732 | 31,750 | 52,432 | 112,789 | 240,723 |
| Provision for adverse deviation | | | | | | | | | 24,982 |
| Pipeline business | | | | | | | | | - |
| Gross General Takaful contract Liabilities | | | | | | | | | 265,705 |

29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2017:

| | 2010 and prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accident year | | | | | | | | | |
| At end of accident year | 32,523 | 17,488 | 17,662 | 28,156 | 35,176 | 60,770 | 75,207 | 91,768 | |
| One year later | 32,691 | 15,510 | 17,635 | 25,865 | 35,319 | 57,828 | 70,521 | | |
| Two years later | 30,243 | 14,818 | 16,905 | 26,826 | 33,785 | 54,011 | | | |
| Three years later | 29,001 | 14,495 | 16,821 | 26,211 | 29,566 | | | | |
| Four years later | 28,701 | 14,467 | 16,515 | 25,438 | | | | | |
| Five years later | 28,459 | 14,109 | 16,181 | | | | | | |
| Six years later | 27,434 | 13,710 | | | | | | | |
| Seven years later | 27,071 | | | | | | | | |
| Current estimate of cumulative claims incurred | 27,071 | 13,710 | 16,181 | 25,438 | 29,566 | 54,011 | 70,521 | 91,768 | 328,266 |

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2017 (continued):

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accident year | | | | | | | | | |
| At end of accident year | 7,171 | 4,927 | 5,573 | 9,537 | 10,445 | 19,313 | 27,600 | 31,247 | |
| One year later | 19,347 | 11,259 | 12,654 | 18,208 | 23,279 | 39,635 | 50,983 | | |
| Two years later | 23,805 | 12,480 | 14,142 | 22,095 | 26,790 | 45,416 | | | |
| Three years later | 25,059 | 12,846 | 14,936 | 22,878 | 26,088 | | | | |
| Four years later | 25,367 | 13,116 | 15,196 | 23,463 | | | | | |
| Five years later | 25,446 | 13,178 | 15,402 | | | | | | |
| Six years later | 25,549 | 13,204 | | | | | | | |
| Seven years later | 25,708 | | | | | | | | |
| Cumulative payments to-date | 25,708 | 13,204 | 15,402 | 23,463 | 26,088 | 45,416 | 50,983 | 31,247 | 231,511 |
| Net General Takaful Contract Liabilities | 1,363 | 506 | 779 | 1,975 | 3,478 | 8,595 | 19,538 | 60,521 | 96,755 |
| Provision for adverse deviation | | | | | | | | | 9,193 |
| Pipeline business | | | | | | | | | - |
| Net General Takaful Contract Liabilities | | | | | | | | | 105,948 |

29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2016:

| | 2009 and prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|---|---|
| Accident year | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At end of accident year | 31,080 | 54,138 | 57,359 | 75,801 | 122,510 | 173,322 | 153,400 | 186,898 | |
| One year later | 24,890 | 58,202 | 55,296 | 73,172 | 113,516 | 150,108 | 140,108 | | |
| Two years later | 20,331 | 52,314 | 52,335 | 71,157 | 108,045 | 136,885 | | | |
| Three years later | 17,121 | 49,989 | 49,023 | 72,160 | 109,963 | | | | |
| Four years later | 16,640 | 49,702 | 49,894 | 77,392 | | | | | |
| Five years later | 16,602 | 49,515 | 50,554 | | | | | | |
| Six years later | 16,195 | 46,910 | | | | | | | |
| Seven years later | 15,728 | | | | | | | | |
| Current estimate of cumulative claims incurred | 15,728 | 46,910 | 50,554 | 77,392 | 109,963 | 136,885 | 140,108 | 186,898 | 764,438 |

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2016 (continued):

| | 2009 and prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accident year | | | | | | | | | |
| At end of accident year | 5,121 | 10,114 | 12,429 | 18,204 | 33,270 | 40,160 | 43,447 | 53,291 | |
| One year later | 12,023 | 29,052 | 34,709 | 45,537 | 67,240 | 93,627 | 90,643 | | |
| Two years later | 13,352 | 35,595 | 39,689 | 51,451 | 85,084 | 106,477 | | | |
| Three years later | 15,164 | 37,091 | 43,152 | 56,490 | 91,757 | | | | |
| Four years later | 15,235 | 39,485 | 44,206 | 62,033 | | | | | |
| Five years later | 15,470 | 39,916 | 44,868 | | | | | | |
| Six years later | 15,508 | 40,270 | | | | | | | |
| Seven years later | 15,627 | | | | | | | | |
| Cumulative payments to-date | 15,627 | 40,270 | 44,868 | 62,033 | 91,757 | 106,477 | 90,643 | 53,291 | 504,966 |
| Gross General Takaful contract liabilities | 101 | 6,640 | 5,686 | 15,359 | 18,206 | 30,408 | 49,465 | 133,607 | 259,472 |
| Provision for adverse deviation | | | | | | | | | 27,147 |
| Pipeline business | | | | | | | | | 5,041 |
| Gross General Takaful contract liabilities | | | | | | | | | 291,660 |

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2016:

| | 2009 and prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accident year | | | | | | | | | |
| At end of accident year | 7,334 | 25,190 | 17,488 | 17,662 | 28,156 | 35,176 | 60,770 | 75,207 | |
| One year later | 7,855 | 24,835 | 15,510 | 17,635 | 25,865 | 35,319 | 57,828 | | |
| Two years later | 6,742 | 23,500 | 14,818 | 16,905 | 26,826 | 33,785 | | | |
| Three years later | 6,428 | 22,573 | 14,495 | 16,821 | 26,211 | | | | |
| Four years later | 6,294 | 22,407 | 14,467 | 16,515 | | | | | |
| Five years later | 6,226 | 22,233 | 14,109 | | | | | | |
| Six years later | 6,000 | 21,433 | | | | | | | |
| Seven years later | 5,946 | | | | | | | | |
| Current estimate of cumulative claims incurred | 5,946 | 21,433 | 14,109 | 16,515 | 26,211 | 33,785 | 57,828 | 75,207 | 251,034 |

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2016 (continued):

| | 2009 and prior | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accident year | | | | | | | | | |
| At end of accident year | 1,887 | 5,284 | 4,927 | 5,573 | 9,537 | 10,445 | 19,313 | 27,600 | |
| One year later | 4,886 | 14,461 | 11,259 | 12,654 | 18,208 | 23,279 | 39,635 | | |
| Two years later | 5,477 | 18,328 | 12,480 | 14,142 | 22,095 | 26,790 | | | |
| Three years later | 5,716 | 19,342 | 12,846 | 14,936 | 22,878 | | | | |
| Four years later | 5,796 | 19,571 | 13,116 | 15,196 | | | | | |
| Five years later | 5,809 | 19,637 | 13,178 | | | | | | |
| Six years later | 5,810 | 19,738 | | | | | | | |
| Seven years later | 5,931 | | | | | | | | |
| Cumulative payments to-date | 5,931 | 19,738 | 13,178 | 15,196 | 22,878 | 26,790 | 39,635 | 27,600 | 170,946 |
| Net General Takaful Contract Liabilities | 15 | 1,695 | 931 | 1,319 | 3,333 | 6,995 | 18,193 | 47,607 | 80,088 |
| Provision for adverse deviation | | | | | | | | | 7,786 |
| Pipeline business | | | | | | | | | 2,594 |
| Net General Takaful Contract Liabilities | | | | | | | | | 90,468 |

29 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Sensitivities

The General Takaful Claim Liability is sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivities of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and profit after tax. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

| | | Impact on General Takaful claims liabilities | | | |
|---|---|---|---|---|---|
| | Change in assumptions | Gross | Net | Profit before tax | Profit after tax* |
| | % | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | | |
| Average open claims | +10 | 26,571 | 10,595 | (10,595) | (8,052) |
| Loss ratio | +10 | 31,439 | 16,738 | (16,738) | (12,721) |
| Provision for adverse deviation | +10 | 2,498 | 919 | (919) | (698) |
| 2016 | | | | | |
| Average open claims | +10 | 29,166 | 9,047 | (9,047) | (6,785) |
| Loss ratio | +10 | 30,251 | 11,656 | (8,899) | (6,674) |
| Provision for adverse deviation | +10 | 2,760 | 803 | (803) | (602) |

* The profits are before surplus sharing.

The method used for deriving sensitivity information and significant assumptions did not change from the previous period. There is no impact to the equity of the Company as the Company applies the Wakalah principle.

30 FINANCIAL RISK

The Company's activities expose it to credit risk, liquidity risk and market risk. The Company's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Company's financial performance. The Board is responsible for setting the objectives and underlying principles of financial risk management for the Company and detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, and exposure limits in accordance with the objectives and underlying principles approved by the Board. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The major classes of financial assets of the Company are investment in cash, Islamic private debt securities, and receivables, including amounts due from Takaful contracts and amounts due from retakaful in respect of payments already made to participants. For investments in Islamic private debt securities, a downgrade of credit rating or widening of credit spread may also incur financial loss. The retakaful share of unearned contribution reserves in relation to the General Takaful fund and Qardhul Hassan are not financial instruments, and hence these items are not exposed to credit risk.

For receivables, the Company adopts the policy of dealing only with customers of appropriate credit history. Debtor recoverability and risk concentration monitoring are part of credit risk management which is reviewed regularly. As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

Retakaful is used to manage Takaful risk. This does not, however, discharge the Company's liability as primary Takaful operator. If a retakaful fails to pay a claim for any reason, the Company remains liable for the payment to the participants. The creditworthiness of retakaful is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company issues Investment-linked investment contracts. In the Investment-linked funds, the holders of these contracst bear the investment risks on the assets held in the Investment-linked funds as the contract benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on Investment-linked financial assets.

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk

The table below show the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

| | Continuing Operations | | | |
|---|---|---|---|---|
| | Takaful Operator | Family Takaful Fund | Investment-linked fund | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | |
| AFS investments: | | | | |
| Malaysian Government Securities / Government Investment Issue | 8,117 | - | - | 8,117 |
| Islamic debt securities, unquoted | 158,219 | 67,909 | - | 226,128 |
| FVTPL investments: | | | | |
| Shariah-approved quoted equities* | - | - | 106,515 | 106,515 |
| Islamic debt securities, unquoted | - | - | 80,671 | 80,671 |
| Investment-linked units* | 3,045 | - | - | - |
| Unit trusts* | - | - | 242,343 | 242,343 |
| LAR: | | | | |
| Fixed and call deposits with: | | | | |
| Licensed financial institutions | - | - | - | - |
| Retakaful assets# | - | 15,535 | - | 15,535 |
| Takaful receivables | - | 3,217 | - | 3,217 |
| Other receivables | 17,828 | 19 | 19 | 1,526 |
| Cash and bank balances | 16,019 | 65,344 | 12,926 | 94,289 |
| | 203,228 | 152,024 | 442,474 | 778,341 |

* Not subject to credit risk
# Retakaful assets exclude unearned contribution reserve

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2017** (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

| | Discontinued Operations | | |
|---|---|---|---|
| | Takaful Operator | General Takaful Fund | Company |
| | RM'000 | RM'000 | RM'000 |
| 2017 | | | |
| AFS investments: | | | |
| Malaysian Government Securities / Government Investment Issue | - | 2,029 | 2,029 |
| Islamic debt securities, unquoted | - | 157,663 | 157,663 |
| LAR: | | | |
| Fixed and call deposits with: | | | |
| Licensed financial institutions | 74,184 | 321 | 74,505 |
| Retakaful assets# | - | 158,941 | 158,941 |
| Takaful receivables | - | 45,916 | 45,916 |
| Other receivables | 5,069 | 8,366 | 245 |
| Cash and bank balances | 2,020 | 38,627 | 40,647 |
| | 81,273 | 411,863 | 479,946 |

| | Continuing Operations | | | | |
|---|---|---|---|---|---|
| | Takaful Operator | General Takaful Fund | Family Takaful Fund | Investment-linked fund | Company |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2016 | | | | | |
| AFS investments: | | | | | |
| Malaysian Government Guaranteed financing | - | 14,945 | 24,791 | - | 39,736 |
| Islamic debt securities, unquoted | - | 42,914 | 42,883 | - | 85,797 |
| FVTPL investments: | | | | | |
| Shariah-approved quoted equities* | | | | 79,968 | 79,968 |
| Islamic debt securities, unquoted | - | - | - | 52,887 | 52,887 |
| Investment-linked units* | 2,800 | - | - | - | - |
| Unit trusts* | | | | 214,359 | 214,359 |
| LAR: | | | | | |
| Fixed and call deposits with: | | | | | |
| Licensed financial institutions | 161,856 | 119,357 | 27,948 | - | 309,161 |
| Retakaful assets# | - | 201,192 | 14,949 | - | 216,141 |
| Takaful receivables | - | 29,275 | 3,178 | - | 32,453 |
| Other receivables | 1,887 | 1,032 | 1,154 | 60 | 4,133 |
| Cash and bank balances | 2,706 | 1,455 | 32,546 | 18,972 | 55,679 |
| | 169,249 | 410,170 | 147,449 | 366,246 | 1,090,314 |

* Not subject to credit risk
# Retakaful assets exclude unearned contribution reserve

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and/or MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

| | Neither past due nor impaired | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Continuing Operations | AAA | AA | A | BBB | Not rated | Not subject to credit risk | Investment -linked fund | Past due but not impaired | Past due and impaired | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | | | | | | | |
| AFS investments: | | | | | | | | | | |
| Malaysian Government Securities / Guaranteed Investment Issue | - | - | - | - | 8,117 | - | - | - | - | 8,117 |
| Islamic debt securities, unquoted | 47,593 | 99,191 | - | - | 79,344 | - | - | - | - | |
| FVTPL investments: | | | | | | | | | | |
| Shariah-approved quoted equities | - | - | - | - | - | - | 106,515 | - | - | 106,515 |
| Islamic debt securities, unquoted | - | - | - | - | - | - | 80,671 | - | - | 80,671 |
| Unit trusts | - | - | - | - | - | - | 242,343 | - | - | 242,343 |
| LAR: | | | | | | | | | | |
| Fixed and call deposits with: | | | | | | | | | | |
| Licensed financial institutions | - | - | - | - | - | - | - | - | - | - |
| Retakaful assets | - | - | - | - | 15,535 | - | - | - | - | 15,535 |
| Takaful receivables | - | - | - | - | 3,217 | - | - | - | - | 3,217 |
| Other receivables | - | - | - | - | 1,517 | - | 9 | - | - | 1,526 |
| Cash and bank balances | 76,238 | 5,122 | 7 | - | (6) | - | 12,926 | - | - | 94,287 |
| Allowance for impairment losses | | | | | | | | | | |
| | 124,191 | 104,313 | 7 | | 107,724 | - | 442,464 | - | - | 552,211 |

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30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and/or MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

| | Neither past due nor impaired | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Discontinued Operations | AAA | AA | A | BBB | Not rated | Not subject to credit risk | Past due but not impaired | Past due and impaired | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | | | | | | |
| AFS investments: | | | | | | | | | |
| Malaysian Government Securities / Guaranteed Investment Issue | - | - | - | - | 2,029 | - | - | - | 2,029 |
| Islamic debt securities, unquoted | 29,716 | 78,032 | - | - | 49,916 | - | - | - | 157,664 |
| LAR: | | | | | | | | | |
| Fixed and call deposits with: | | | | | | | | | |
| Licensed financial institutions | 74,505 | - | - | - | - | - | - | - | 74,505 |
| Retakaful assets | - | 7,282 | 121,023 | 620 | 30,016 | - | - | - | 158,941 |
| Takaful receivables | - | 413 | 15,648 | - | 11,988 | - | 6,805 | 9,763 | 44,617 |
| Other receivables | - | - | - | - | 245 | - | - | - | 246 |
| Cash and bank balances | 30,097 | 7,648 | 2,901 | - | - | - | - | - | 40,646 |
| Allowance for impairment losses | | | | | | | | | |
| | 134,318 | 93,375 | 139,572 | 620 | 94,194 | - | 6,805 | 9,763 | 478,648 |

30 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

| | Neither past due nor impaired | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Continuing Operations | AAA | AA | A | BBB | Not rated | Not subject to credit risk | Investment -linked fund | Past due but not impaired | Past due and impaired | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2016 | | | | | | | | | | |
| AFS investments: | | | | | | | | | | |
| Malaysian Government | | | | | | | | | | |
| Guaranteed financing | - | - | - | - | 39,736 | - | - | - | - | 39,736 |
| Islamic debt securities, unquoted | 20,248 | 59,972 | - | - | 5,577 | - | - | - | - | 85,797 |
| FVTPL investments: | | | | | | | | | | |
| Shariah-approved quoted equities | - | - | - | - | - | - | 79,968 | - | - | 79,968 |
| Islamic debt securities, unquoted | - | - | - | - | - | - | 52,887 | - | - | 52,887 |
| Unit trusts | - | - | - | - | - | - | 214,359 | - | - | 214,359 |
| LAR: | | | | | | | | | | |
| Fixed and call deposits with: | | | | | | | | | | |
| Licensed financial institutions | 144,705 | 152,945 | 11,511 | - | - | - | - | - | - | 309,161 |
| Retakaful assets | - | 74,797 | 98,600 | 13,999 | 28,745 | - | - | - | - | 216,141 |
| Takaful receivables | 67 | 273 | 1,125 | 314 | 23,430 | - | - | 7,244 | 7,899 | 40,352 |
| Other receivables | - | - | - | - | 4,073 | - | 60 | - | 38 | 4,171 |
| Cash and bank balances | 34,436 | 1,330 | (455) | - | 1,396 | - | 18,972 | - | - | 55,679 |
| Allowance for impairment losses | - | - | - | - | - | - | - | - | (7,937) | (7,937) |
| | 199,456 | 289,317 | 110,781 | 14,313 | 102,957 | - | 366,246 | 7,244 | - | 1,090,314 |

30 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Aged analysis of financial assets past due but not impaired

| Discontinued Operations | > 60 days and <180 days | > 180 days | Total |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| 2017 | | | |
| Takaful receivables | 5,668 | 1,137 | 6,805 |
| 2016 | | | |
| Takaful receivables | 5,694 | 1,550 | 7,244 |

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and Takaful liabilities that are settled by delivering cash or another financial asset. The Company is exposed to calls on its available cash resources mainly from claims arising from takaful and investment contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of lapses/surrenders. The nature of the Company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior period.

The Company's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This involves projecting cash flows on a regular basis to predict cash outflows from Takaful and investment contracts over the short, medium and long term; which include purchases of assets with similar durations to its Takaful contracts; assets purchased by the Company to satisfy specified marketability requirements; and the Company maintains cash and liquid assets to meet daily calls on its Takaful contracts and other obligations.

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations. All liabilities are presented on a contractual cash flow basis except for Takaful contract liabilities, the maturity profiles are determined based on the estimated timing of net cash outflows from the recognised Takaful liabilities.

Available-for-sale fair value adjustment, unearned contribution reserve and retakaful's share of unearned contribution have been excluded from the analysis as they are not contractual obligations.

Investment-linked fund liabilities are repayable or transferable upon notice by certificate holders and are disclosed separately under the "Investment-linked fund" column. Repayments which are subject to notice are treated as if such notice was to be given immediately.

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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk

| Continuing Operations | Carrying value | Up to a year | 1 – 3 years | 3 – 5 years | 5 – 15 years | Over 15 years | No maturity date | Investment-linked fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | | | | | | |
| AFS investments: | | | | | | | | | |
| Malaysian Government Securities / | | | | | | | | | |
| Government Investment Issue | 8,117 | 316 | 632 | 8,474 | - | - | - | - | 9,422 |
| Islamic debt securities, unquoted | 226,128 | 43,346 | 64,783 | 83,220 | 91,708 | 11,577 | - | - | 294,634 |
| FVTPL investments: | | | | | | | | | |
| Shariah-approved quoted equities | 106,515 | - | - | - | - | - | - | 106,515 | 106,515 |
| Islamic debt securities, unquoted | 80,671 | - | - | - | - | - | - | 80,671 | 80,671 |
| Unit trusts | 242,343 | - | - | - | - | - | - | 242,343 | 242,343 |
| LAR: | | | | | | | | | |
| Fixed and call deposits with: | | | | | | | | | |
| Licensed financial institutions | - | - | - | - | - | - | - | - | - |
| Retakaful assets | 15,535 | 7,088 | 8 | 81 | 1,985 | 6,373 | - | - | 15,535 |
| Takaful receivables | 3,217 | 3,217 | - | - | - | - | - | - | 3,217 |
| Other receivables | 1,526 | 1,507 | - | - | - | - | - | 19 | 1,526 |
| Cash and bank balances | 94,289 | 81,363 | - | - | - | - | - | 12,926 | 94,289 |
| | 778,341 | 136,837 | 65,423 | 91,775 | 93,693 | 17,950 | - | 442,474 | 848,152 |
| Takaful contract liabilities | 561,560 | 525,653 | 17,750 | 474 | 8,684 | 7,928 | - | - | 560,489 |
| Takaful payables | 3,494 | 3,494 | - | - | - | - | - | - | 3,494 |
| Expense liabilities | 2,001 | 24 | 19 | 65 | 732 | 1,161 | - | - | 2,001 |
| Other payables | 43,724 | 43,724 | - | - | - | - | - | - | 43,724 |
| | 610,779 | 572,895 | 17,769 | 539 | 9,416 | 9,089 | - | - | 609,708 |

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk

| Discontinued Operations | Carrying value | Up to a year | 1 – 3 years | 3 – 5 years | 5 – 15 years | Over 15 Years | No maturity date | Total |
|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | | | | | |
| AFS investments: | | | | | | | | |
| Malaysian Government Securities / | | | | | | | | |
| Government Investment Issue | 2,029 | 79 | 158 | 2,118 | - | - | - | 2,355 |
| Islamic debt securities, unquoted | 157,663 | 30,164 | 59,732 | 60,178 | 31,334 | - | - | 181,408 |
| LAR: | | | | | | | | |
| Fixed and call deposits with: | | | | | | | | |
| Licensed financial institutions | 74,505 | 203 | - | - | - | - | - | 203 |
| Retakaful assets | 159,758 | 100,640 | 50,556 | 7,725 | 838 | - | - | 159,759 |
| Takaful receivables | 45,916 | 45,916 | - | - | - | - | - | 45,916 |
| Other receivables | 245 | 245 | - | - | - | - | - | 245 |
| Cash and bank balances | 40,647 | 40,647 | - | - | - | - | - | 40,647 |
| | 480,763 | 217,894 | 110,446 | 70,021 | 32,172 | - | - | 430,533 |
| Takaful contract liabilities | 265,705 | 168,131 | 82,960 | 13,057 | 1,558 | - | - | 265,706 |
| Takaful payables | 30,381 | 30,381 | - | - | - | - | - | 30,381 |
| Expense liabilities | 3,669 | 24 | 19 | 65 | 732 | 2,829 | - | 3,669 |
| Other payables | 27,520 | 27,520 | - | - | - | - | - | 27,520 |
| | 327,275 | 226,056 | 82,979 | 13,122 | 2,290 | 2,829 | - | 327,276 |

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

| | Carrying value | Up to a year | 1 – 3 years | 3 – 5 years | 5 – 15 years | Over 15 years | No maturity date | Investment-linked fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 2016 | | | | | | | | | |
| AFS investments: | | | | | | | | | |
| Malaysian Government Guaranteed Financing | 39,736 | - | - | - | 44,556 | 18,834 | - | - | 63,390 |
| Islamic debt securities, unquoted | 85,797 | 3,188 | 33,289 | - | 63,888 | 19,040 | - | - | 119,405 |
| FVTPL investments: | | | | | | | | | |
| Shariah-approved quoted equities | 79,968 | - | - | - | - | - | - | 79,968 | 79,968 |
| Islamic debt securities, unquoted | 52,887 | - | - | - | - | - | - | 52,887 | 52,887 |
| Unit trusts | 214,359 | - | - | - | - | - | - | 214,359 | 214,359 |
| LAR: | | | | | | | | | |
| Fixed and call deposits with: | | | | | | | | | |
| Licensed financial institutions | 309,161 | 317,852 | - | - | - | - | - | - | 317,852 |
| Retakaful assets | 216,141 | 140,468 | 57,925 | 8,077 | 2,820 | 6,851 | - | - | 216,141 |
| Takaful receivables | 32,453 | 32,453 | - | - | - | - | - | - | 32,453 |
| Other receivables | 4,133 | 4,073 | - | - | - | - | - | 60 | 4,133 |
| Cash and bank balances | 55,679 | 36,707 | - | - | - | - | - | 18,972 | 55,679 |
| | 1,090,314 | 534,741 | 91,214 | 8,077 | 111,264 | 44,725 | - | 366,246 | 1,156,267 |
| Takaful contract liabilities | 788,984 | 649,950 | 92,623 | 10,239 | 6,752 | 29,420 | - | - | 788,984 |
| Takaful payables | 39,142 | 39,142 | - | - | - | - | - | - | 39,142 |
| Expense liabilities | 7,575 | 7,575 | - | - | - | - | - | - | 7,575 |
| Other payables | 64,113 | 63,305 | - | - | - | - | - | 808 | 64,113 |
| | 899,814 | 759,972 | 92,623 | 10,239 | 6,752 | 29,420 | - | 808 | 899,814 |

30 FINANCIAL RISK (CONTINUED)

Market risks

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and equity prices which will affect the value of the Company's assets, the amount of its liabilities and/or the Company's income. Market risk arises in the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on all of its financial assets, including those held to back investment-linked contracts to the extent that the fees earned by the Company on these contracts are often dependent on the market value of the underlying portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

The Investment Committee manages and monitors market risks. The Committee's reports are tabled to the Board. For each of the major components of market risk the Company has policies and procedures in place which detail how each risk should be managed and monitored.

Profit rate risk

Profit rate risk arises primarily from the Company's investments. Changes in investment values attributable to profit rate changes are mitigated by corresponding and partially offsetting changes in the economic value of takaful provisions, investment contract liabilities. The Company manages its profit rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from profit rate movements. The Company monitors its profit rate risk exposure through periodic reviews of the asset and liability position, as well as through stress testing by using duration and convexity measurements. The nature of the Company's exposures to profit rate risk and its objectives, policies and processes for managing profit rate risk have not changed significantly from the prior period.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact of profit before tax (due to changes in fair value of fixed and floating rate/yield financial instruments) and equity (that reflects adjustments to profit before tax and re-valuing fixed rate/yield AFS financial assets).

30 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Profit rate risk (continued)

| | Changes in variables | Impact on profit before tax^ 2017 RM'000 | Impact on profit before tax^ 2016 RM'000 | Impact on equity* 2017 RM'000 | Impact on equity* 2016 RM'000 | Impact on Takaful contract liabilities* 2017 RM'000 | Impact on Takaful contract liabilities* 2016 RM'000 |
|---|---|---|---|---|---|---|---|
| Takaful Operator | | | | | | | |
| RM | +100 basis points | 730 | 1,615 | 555 | 1,228 | - | - |
| RM | -100 basis points | (730) | (1,615) | (555) | (1,228) | - | - |
| General Takaful Fund | | | | | | | |
| RM | +100 basis points | - | 1,191 | - | (1,315) | (128) | (986) |
| RM | -100 basis points | - | (1,191) | - | 1,465 | 127 | 1,099 |
| Family Takaful Fund | | | | | | | |
| RM | +100 basis points | - | 279 | - | (5,770) | (178) | (4,327) |
| RM | -100 basis points | - | (279) | - | 6,587 | 178 | 4,940 |

^ Impact on Islamic money market instruments only.
* Impact on equity/Takaful contract liabilities reflects adjustments for tax, when applicable.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Exposures to foreign currency risk are monitored on an on-going basis.

The Company has no significant exposure to currency risk.

Operational risks

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Our major risk exposures within operational risk are data security, business continuity and reputational damage affecting customer demand. Our operational risk appetite is minimal. In order to mitigate these risks, the Internal Auditor reviews the effectiveness of the internal controls and reports to the Audit Committee on a regular basis.

30 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company monitors its equity price risk through stress testing. In addition, the Company monitors and manages the equity exposure against policies set and agreed by the Investment Committee. These policies include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in profit or loss) and equity (that reflects adjustments to profit before tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

| | | Impact on profit before tax | | Impact on equity* | |
|---|---|---|---|---|---|
| Market Indices | Changes in | 2017 | 2016 | 2017 | 2016 |
| Takaful Operator | variables | RM'000 | RM'000 | RM'000 | RM'000 |
| Bursa Malaysia | 15% | - | - | - | - |
| Bursa Malaysia | -15% | - | - | - | - |

* Impact on equity reflects adjustments for tax, when applicable.

There is no impact to the Company's profit before taxation as the impact of changes in price risk to the equities securities of the Family Takaful fund and Investment-linked funds is retained in the Takaful contract liabilities.

The method used for deriving sensitivity information and significant variables did not change from previous year.

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